



# *Maryland 2003*

Comprehensive Annual Financial Report  
*for the fiscal year ended June 30, 2003*

William Donald Schaefer  
Comptroller of Maryland



COMPTROLLER  
*of* MARYLAND  
*Serving the People*

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Motor Fuel Tax Division

*Jerry Klasmeier*  
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**Administrative Support**

Brenda Brady



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# Maryland 2003

## Comprehensive Annual Financial Report

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# A Message from the Comptroller

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## *Setting a Standard*

During its first year in office, our new state administration addressed a \$1 billion deficit by making serious spending cuts and by receiving one-time additional funding as a result of the 2003 federal tax cut. However, the state's revenues for the upcoming budget year are still about \$1 billion below expenditures, which means difficult decisions are coming.

The state budget has a serious structural problem. We need to look for new revenue sources, as well as to institute further spending restraints. On this subject, this Comprehensive Annual Financial Report highlights innovations and efficiencies that the Comptroller's Office itself has adopted so that revenues go further.

A dramatic shift from paper to electronic filing has contributed to substantial savings. In addition to being cheaper, electronic filing is faster. Electronic filing has resulted in reduced printing costs, as well as less dependence on hiring temporary employees to process tax returns.

In addition, greater attention to enforcing revenue laws so that everyone pays a fair share of taxes has returned millions of dollars to fund other state programs. Winning a major court case regarding the use of corporate subsidiaries to shift income from Maryland has the potential of bringing in \$100 million.

We are not done. My agency will continue to look hard at the way we do things in order to free up more funds that can go to support programs that are important to people. We will continue to set a standard for more efficient and responsive service to taxpayers. In my role as comptroller and as a member of the Board of Public Works, I will continue to be a fiscal watchdog for the state.

A handwritten signature in cursive script that reads "William Donald Schaefer".

William Donald Schaefer  
Comptroller of Maryland



# Cutting the Cost of Collecting Taxes

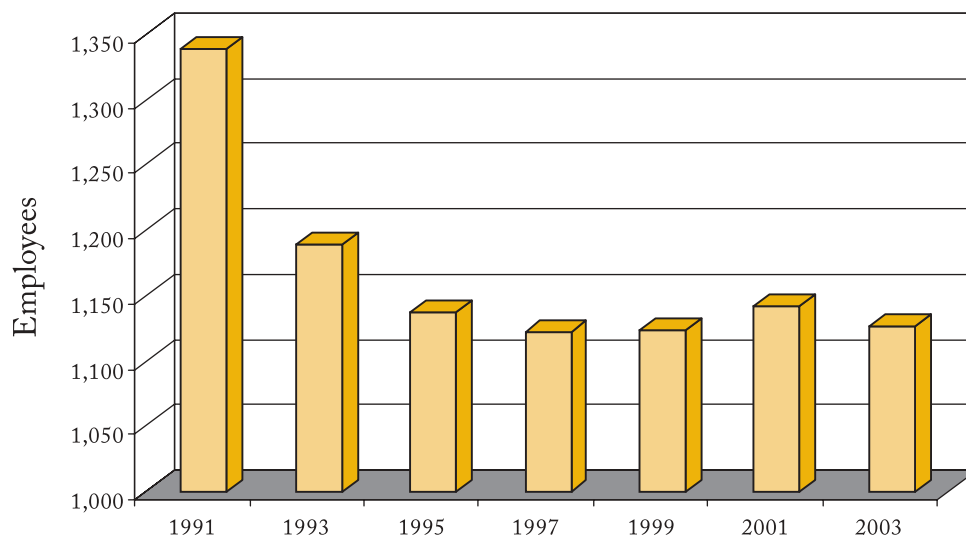
## *Introduction*

Every department of state government has a mission and a purpose. The primary function of the Comptroller of Maryland is to collect taxes, which are needed to help pay for the state's services and programs. What is collected — approximately \$10 billion this year — funds half of the state's budget. That amount has grown over the years, increasing the importance of the role of the Comptroller's Office.

However, while the agency's job has gotten bigger, its workforce has not. In 2003, it actually has 235 employees fewer than 12 years ago. Today, 1,103 people work for the Comptroller compared with 1,338 in 1991.

The Comptroller has been able to handle an increased workload by initiating a number of cost-cutting efficiencies. Some examples include the expansion of electronic filing, ensuring tax equity through litigation and field enforcement, and instituting internal operating efficiencies. The agency considers this streamlining to be part of its mission, because it means more money is available to pay for programs that provide critical services to people.

The following pages highlight some of the results of these efficiencies.



**Fewer Comptroller Employees Despite Increased Workload**

# Electronic Filing Up Nearly 200%

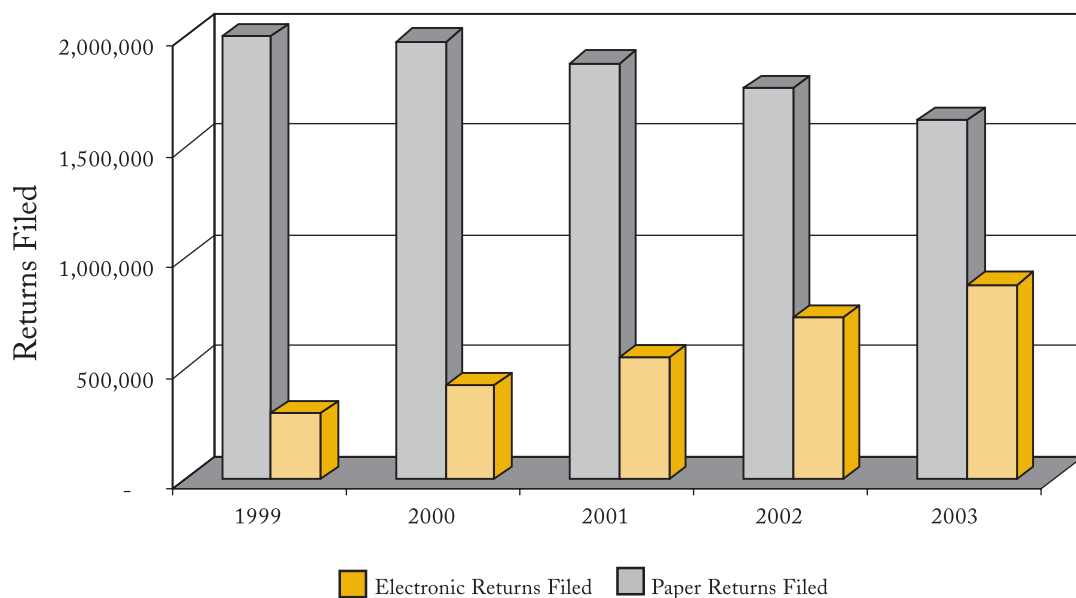
*Significant savings are achieved from offering and promoting electronic filing of tax returns.*

The trend from paper to electronic filing has accelerated over the last five years. The agency has seen an increase of 191 percent in the use of computers to file taxes, while paper filing is down 21 percent. In 1999, 300,352 people filed electronically compared with 877,280 in 2003. Paper filing decreased from 2 million to 1.6 million in the same period. Electronic filing is far less costly to the state than paper filing. The cost of processing a paper return is \$1.95 compared with processing an electronic return at 38 cents.

Maryland's switch to a combined federal-state electronic filing system, from a duplicative separate state system, has saved \$1.5 million

in addition to the \$350,000 it previously cost annually to operate the system.

The Comptroller of Maryland began 2003 by expanding the state's Internet filing service, called iFile. This year's iFile enables nearly all of Maryland's 2.6 million taxpayers to file their taxes online for free. The agency also introduced a new free service that makes paying taxes easier for Maryland businesses. The service, called bFile, allows businesses to file their employer withholding returns and make payments online. This new option was recently expanded to include sales and use tax returns.



**Electronic Filing Up, Paper Filing Down**

# State Wins Big in Court Case

*\$100 million could be recovered as a result.*

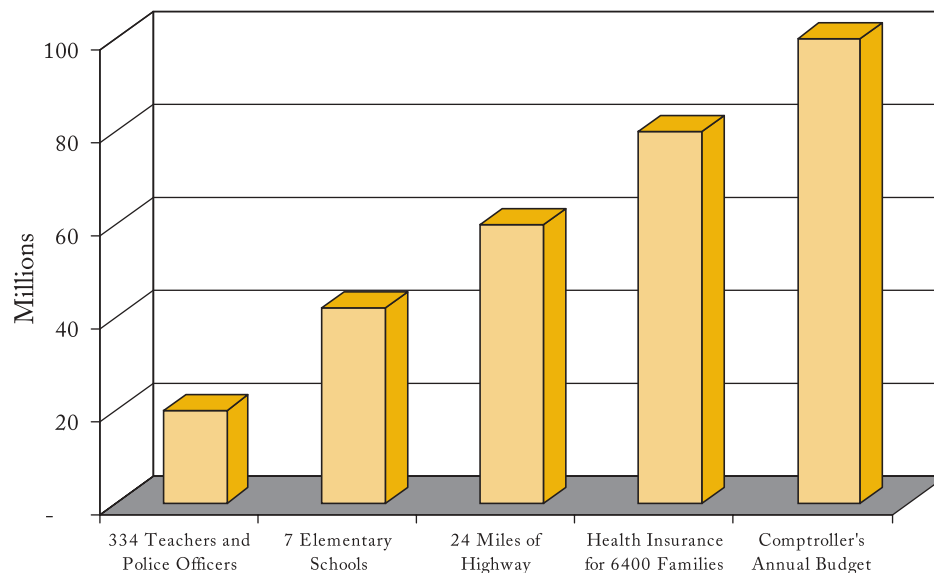
The Comptroller of Maryland goes to court regularly to ensure fair taxation practices. In the last year, the agency won a major case regarding the use of subsidiaries to shift income from Maryland, which will result in capturing millions of dollars for use in funding government programs.

Ending a seven-year legal battle over \$2 million in tax assessments, the court affirmed that the profits of two Delaware holding companies, whose parent corporations — SYMS and Crown Cork & Seal — regularly engaged in business in Maryland, are taxable by the state. The court's decision upholds the Comptroller's long-standing position that Delaware holding companies should pay their fair share of tax when there is clear

evidence of sales activity in Maryland.

The decision has far-reaching implications. There are 38 similar cases pending in the Maryland Tax Court, involving nearly \$22.8 million in tax assessments on so-called subsidiaries in Delaware formed to take advantage of that state's lack of corporate taxes. Hearings have also been scheduled for 33 other cases involving holding companies with assessments totaling nearly \$11 million.

These above-mentioned amounts do not include interest and penalties, which are significant — bringing the potential recovered funds to \$70 to \$100 million for these cases alone.



**What Recovered Funds Could Provide**

# Enforcing Tax Laws Increases Equity for Taxpayers

*Enforcement operations brought in \$23.5 million last year that would have been uncollected.*

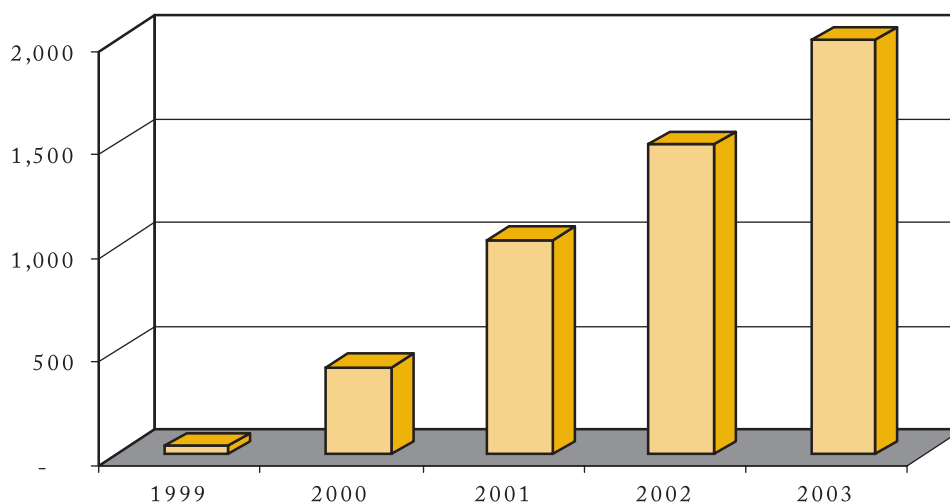
To ensure a level playing field for taxpayers means clamping down on individuals and businesses that do not pay their share. Sometimes the target is a person who doesn't pay income taxes or a business that doesn't withhold taxes from employees. It could also be someone smuggling cigarettes or even furniture for resale into the state to avoid the sales tax. The Comptroller's Office has several programs to assure that all revenues due the state are received.

A cooperative tax offset program with the IRS allows the Comptroller to capture taxes from any federal refund individuals or businesses are entitled to receive. Offsets netted \$18 million last year, and the program is considered one of the most successful of its kind in the nation.

Caught in the Web, an online listing of tax

scofflaws, regularly identifies some of the largest non-payers. One of several collection tools, the Comptroller's Web site ([marylandtaxes.com](http://marylandtaxes.com)) publishes the names of businesses, individuals or corporate officers having large unresolved tax liabilities. This method appears to have had a detrimental effect on other potential non-payers.

Field enforcement efforts have significantly increased over the last five years. Last year, agents made 2,027 arrests for smuggling cigarettes and alcohol compared with 39 in 1999. During the same period, officials confiscated \$560,199 worth of cigarettes compared with cigarettes valued at \$130,749 in 1999. Smuggling has become a growing problem since taxes have significantly increased on cigarettes. Maryland has among the nation's highest tax on cigarettes.



Field Enforcement Arrests

# Agency Reduces Operating Expenses

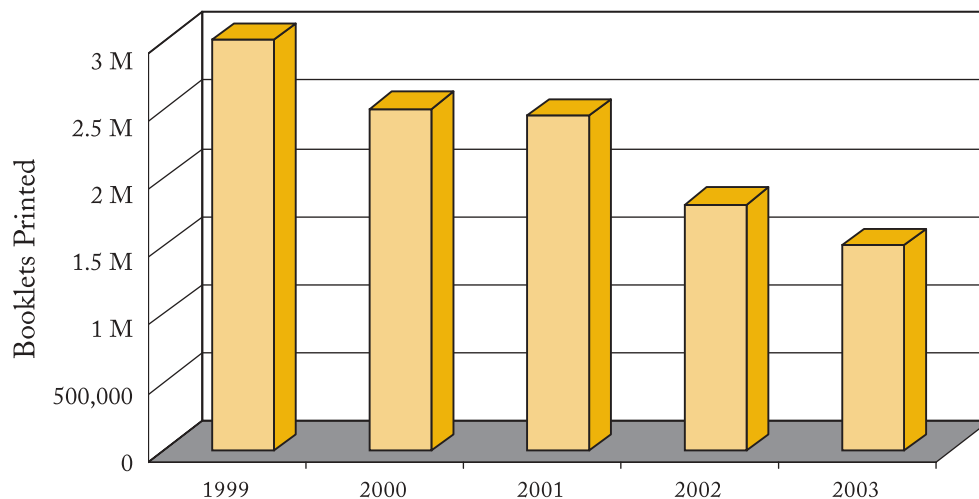
*The Comptroller of Maryland has taken aim at streamlining its operations.*

The installation in 1998 of a corporate purchasing card has already resulted in rebates totaling \$4.1 million to the state's general fund. Each year the state purchases \$180 million worth of goods and services from vendors. By using a purchasing card, the state makes only one payment to the sponsoring bank, rather than mailing checks to thousands of vendors. In addition, businesses benefit because they are paid within three days. In addition to an annual average rebate of \$1.5 million, the corporate purchasing card saves the state \$88,000 each year in postage.

Every year the Comptroller of Maryland hires temporary employees during tax season to handle the processing of returns. Last year

the agency used fewer temporary employees in part because of effective promotion of electronic filing and by reassigning permanent employees to handle the peak workload. The cost of temporary employees during tax season went from \$1.32 million a year ago to \$934,000 this last season — a savings of \$385,000.

As a result of the trend for taxpayers to use electronic filing, the Comptroller's Office is producing and mailing fewer tax booklets. The agency experienced a decline of 50 percent — or 1.5 million fewer booklets — in the last five years. The decrease in printing of these booklets resulted in a \$615,000 savings last year alone.



**Decrease in Numbers of Tax Booklets Printed**



# INTRODUCTORY SECTION



# State of Maryland Selected State Officials

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## EXECUTIVE

**Robert L. Ehrlich, Jr.**  
Governor

**Michael S. Steele**  
Lieutenant Governor

**William Donald Schaefer**  
Comptroller

**J. Joseph Curran, Jr.**  
Attorney General

**Nancy Kopp**  
Treasurer

## JUDICIAL

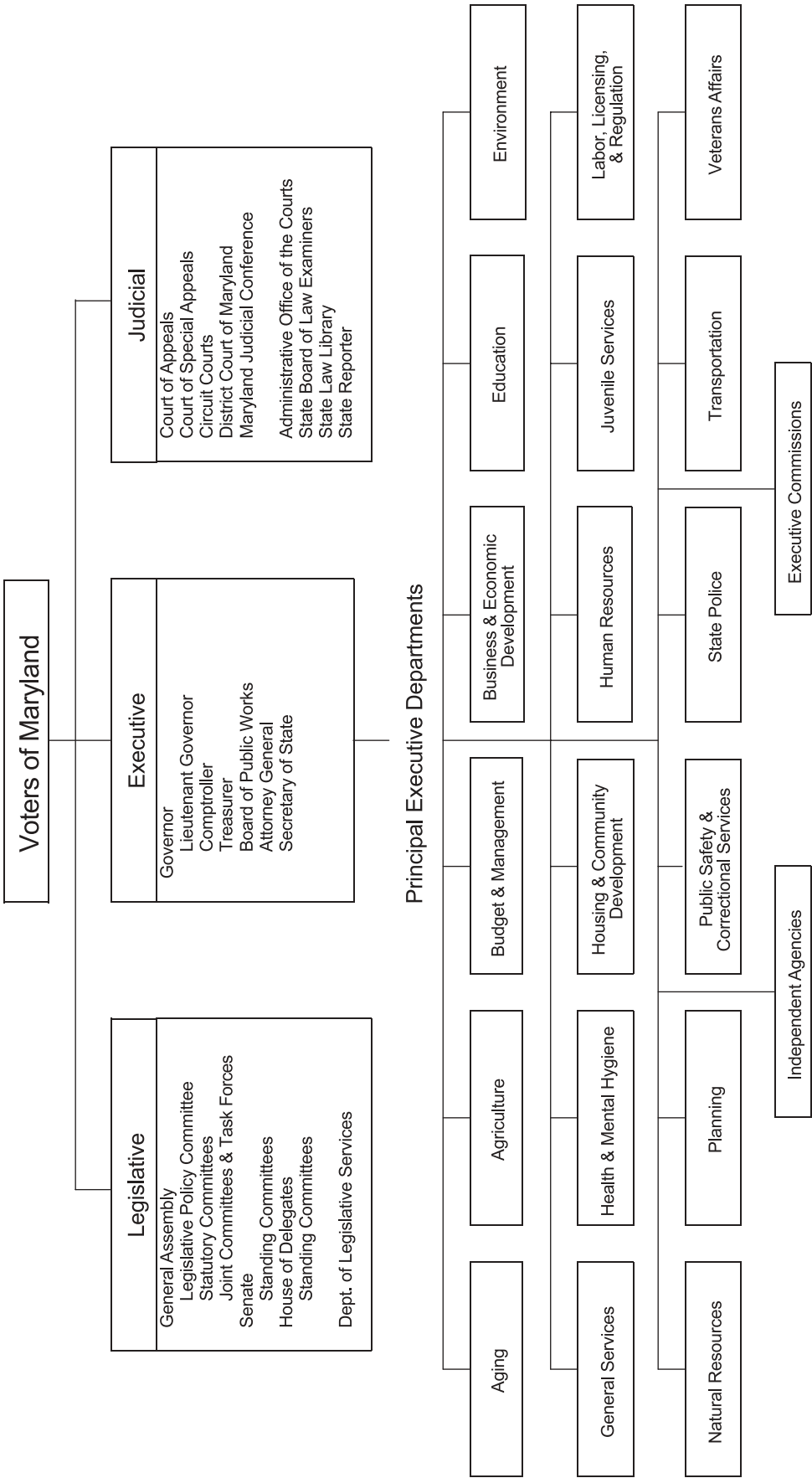
**Robert M. Bell**  
Chief Judge  
Court of Appeals of Maryland

## LEGISLATIVE

**Thomas V. Mike Miller, Jr.**  
President of the Senate

**Michael E. Busch**  
Speaker of the House of Delegates

OVERVIEW OF MARYLAND STATE GOVERNMENT



# Certificate of Achievement for Excellence in Financial Reporting

Presented to

State of Maryland

For its Comprehensive Annual  
Financial Report  
for the Fiscal Year Ended  
June 30, 2002

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



*Edward Harrington*  
President

*Jeffrey L. Esser*  
Executive Director



**William Donald Schaefer**  
*Comptroller*

**John D. Kenney**  
*Director*  
*General Accounting Division*

January 12, 2004

Honorable Members of the General  
Assembly and the Governor,  
State of Maryland:

## INTRODUCTION

The Comprehensive Annual Financial Report (CAFR) of the State of Maryland, for the fiscal year ended June 30, 2003, submitted herewith, includes financial statements of the State of Maryland as well as information required by Title 2, Section 102 of the State Finance and Procurement Article of the Annotated Code of Maryland. Responsibility for both the accuracy of the presented data and the completeness and fairness of the presentation, including all disclosures, rests with the Office of the Comptroller.

The CAFR has been prepared in conformance with the Governmental Accounting Standards Board (GASB) Statements 34 and 35. The objective of this new reporting model is to provide a clear picture of the government as a single, unified entity as well as providing traditional fund based financial statements.

This report is presented in three sections; introductory, financial, and statistical. The introductory section includes this transmittal letter, the State's organizational chart, and a list of principal officials. The financial section includes Management's Discussion and Analysis, Government-Wide Financial Statements, and Fund Financial Statements for Governmental Funds, Enterprise Funds, Fiduciary Funds and Component Units. The Financial Section also includes the Notes to the Financial Statements, Required Supplementary Information, Note to Required Supplementary Information and the report of the independent auditors on the financial statements and schedules. The statistical section includes various budgeting schedules and selected financial and demographic information, generally presented on a multiyear basis.

Accounting principles generally accepted in the United States require that management provide a narrative introduction, overview and analysis to accompany the basic financial statements in the form of Management's Discussion and Analysis (MD&A). This letter of transmittal is designed to complement MD&A and should be read in conjunction with it. Management's Discussion and Analysis can be found immediately following the report of the independent auditors.

The accompanying financial statements include all funds of the State of Maryland (primary government), as well as all component units. Component units are legally separate entities for which the primary government is financially accountable.

Discretely presented component units are reported in a separate column in the combined financial statements to emphasize that they are legally separate from the primary government and to differentiate their financial position and changes in financial position from those of the primary government. Accordingly, the various colleges and universities and the Maryland Stadium Authority are reported as major discretely presented component units, and, the Maryland Industrial Development Financing Authority, the Maryland Food Center Authority, the Maryland Environmental Service and the Maryland Prepaid College Trust are combined and presented as non-major component units.

## THE MARYLAND ECONOMY

Although it is relatively small and cannot remain apart from national and global economic currents, Maryland's economy has performed well through the recent recession and current period of slow growth. Despite a number of extraordinary events beginning with the terrorist attacks of September 11, including the anthrax scare, sniper attacks, a historic snowstorm, war with Iraq and most recently hurricane Isabel, the economy of the State has demonstrated resiliency. While national employment growth declined by 1.1% in 2002 following a stagnant 2001, Maryland employment eked out 0.2% growth, down from 0.7% in 2001. Similarly, unemployment increased only 0.4% last year, while national unemployment increased by a full percentage point. Personal income in Maryland grew by 3.8% in 2002 while wages and salaries grew by 3.1%, both figures substantially higher than the national growth rates of 2.7% and 0.9%, respectively. By nearly all measures, Maryland's economy continues to outperform the national economy.

But strong relative performance does not hide the fact that Maryland's economy suffered its worst year since 1992, when employment declined by 0.9%. Growth in personal income was 3.8%, lower than at any time over that period, while wages and salaries grew by 3.1%, tied for worst in the 11-year period. Personal bankruptcies increased only slightly in 2002, by 0.4%, but reached an all-time high almost 130% above the level of ten years before. Although Maryland's economy has suffered setbacks over the past eighteen months, it is poised for strong growth as the national economy shakes off the current doldrums.

Last year was particularly bad for Maryland manufacturers, with a 6.5% decline in employment, almost double the 3.3% loss in 2001. The decline is a result of actions of both large and small companies, which are continuing in 2003. However, defense-related manufacturing is a bright spot for Maryland manufacturing. As federal spending continues to increase, the decline in manufacturing employment will be mitigated. Another mitigating factor is the declining dollar, but the manufacturing sector in Maryland will continue to shrink for the foreseeable future. Declines of 2.5% and 0.4% are expected in 2003 and 2004. But manufacturing represents under 6.5% of employment in Maryland compared to 11.7% of jobs nationwide, so continuing woes in this sector will have a proportionately smaller impact on Maryland's economy.

Maryland's construction sector struggled through a difficult 2002, growing at just 0.5%—the worst growth since a flat 1993. Troubles have continued into 2003, as the record snowfall in the winter led to two months of employment declines of 1.5% or more. Nationally, the largest decline thus far in 2003 was 0.6% from January to February—the only month this sector has contracted. By contrast, the construction sector has declined in four months this year in Maryland, and through August was still below December 2002 levels. Nonetheless, the sector should regain its momentum by the end of the year, and finish 2003 without a net job loss. While it is still too early to tell, it is possible that reconstruction after the impact of Hurricane Isabel may help to boost the sector.

Employment in Maryland's retail sector declined by 0.5% in 2002 as consumers were buffeted by domestic economic concerns, lingering worries after September 11 and, towards the end of the year, impending war with Iraq. But income in Maryland remained relatively strong, and job losses in the State were marginal compared to the rest of the country, leaving consumers in good shape to resume spending. On balance, expanding retailers will outnumber declining retailers, leading the industry to 1.8% growth in 2003, followed by 0.9% decline in 2004 as consumers catch their breath. Relatively strong growth of 1.4% will follow in 2005.

Improvements and changes in transportation and utilities in Maryland are dramatically altering the landscape, generally for the better, both geographically and economically, but employment in the transportation and utility industries will continue to decline. Passenger traffic at BWI in 2002 is now only 3% below the level of 2000, compared to double-digit declines at most other major airports. The transportation and utility sector is expected to shed 3.8% of its jobs in 2003, a slight improvement over the 4.4% job loss in 2002, and will continue to decline in 2004 with a further loss of 0.4% before very modest growth resumes in 2005.

The Maryland economy was driven by the service sector in the late 1990s. Since the 2001 recession and subsequent economic sluggishness were business-led, rather than consumer-led as most recessions have been, the service sector was rather hard hit. The information services sector was actually Maryland's worst-performing sector in 2002—worse even than manufacturing, with a staggering 8.8% decline. The decline is largely a function of massive over-investment in telecommunications equipment and services during the stock market bubble. The information services sector, however, is the smallest major industry in Maryland, so its troubles will have only a minimal impact on the State's economy.

Maryland's financial services sector is currently stagnant coming off of 1.3% growth in 2002. Bank mergers have resulted in job losses this year, and the mortgage refinancing boom is coming to a close as rates begin to creep up.

Professional and business services is Maryland's third largest industry after government. This sector has experienced a dramatic turnaround over the past few years—from 1996 to 2000, average annual growth in this sector was 5.9%, leading Maryland to four consecutive years of employment growth at or above 2.5%. The sector slowed to 0.7% growth in 2001, and declined by 0.7% in 2002 as profitability declined and businesses cut back on spending. The industry is showing some signs of recovery, however, and will climb back to respectable growth of 2.6% by 2004.

As with much of Maryland's economy, federal government spending lends a great deal of support to this sector. The federal government spent \$13.5 billion in the Washington, D.C. area on high-technology services in 2001, five times the amount spent in Silicon Valley. This spending can only have grown by 2003. Businesses in Montgomery and Anne Arundel counties, and increasingly in Frederick, Howard and elsewhere, are benefiting from these federal expenditures.

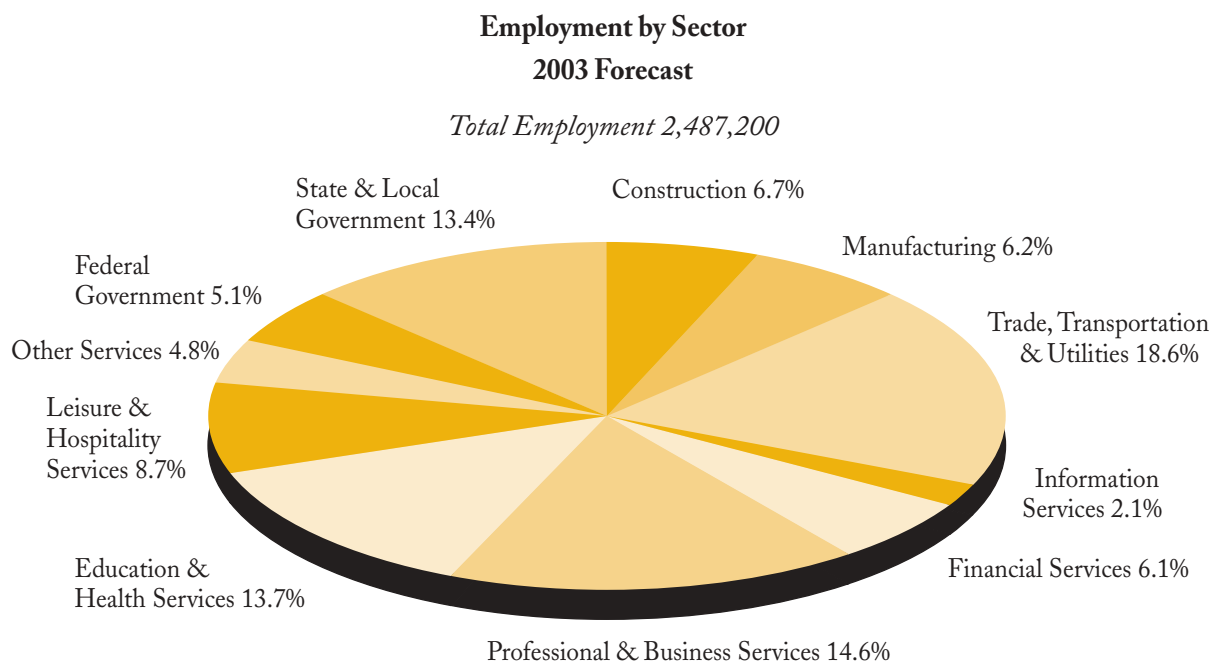
Maryland's second-largest service industry is education and health, which has shown more consistent, robust growth over the past decade than any other sector of the State's economy. In only four of the last eleven years has employment growth been less than 3.0%, and this sector grew by 3.4% in recessionary 2001 and 3.5% in slow-growth 2002. Although beset by such troubles as rising health care costs and the State's budget problems, this sector is likely to continue its record of relatively strong, relatively stable growth.

The biotechnology industry is moving closer to actually becoming the long-promised industry of the future. High demand for services and relatively high salaries in many jobs in this sector will keep the education and health services sector near the top performers in Maryland's economy, with growth of 3.0% both this year and next, increasing to 3.9% in 2005. The leisure and hospitality services sector has also been a strong contributor to growth in Maryland of late, boosted in part by a trend towards local vacationing after September 11 and the 2001 recession.

Government is Maryland's largest industry. Aside from directly supporting tens of thousands of jobs in manufacturing, information services, professional services and health services, federal, state and local governments employ over 460,000 individuals in the State (not to mention several tens of thousands who commute to their government jobs in Virginia or the District). While the government sector has provided a source of stable growth over the past five years, government jobs will be much harder to come by for the next several years as all levels of government are experiencing fiscal difficulties. Federal government employment will decline by 0.7% in 2003 and by a further 0.1% in 2004 before returning to growth in 2005, at a rate of 0.3%.

State employment will not grow in the coming years. A hiring freeze has been in effect since October 2001; the freeze was strengthened in January 2003. Local governments have it better than the State, but only barely. State and local government employment will grow in 2003 by 0.4%, before declining by an equivalent amount in 2004 as the full impact of the State's fiscal problems becomes clear. Modest growth of 0.2% will resume in 2005, due solely to growth in education-related employment at the local level.

Though many sectors will not experience employment growth until 2005, Maryland's economy as a whole has come through the recession in relatively robust fashion. Employment growth never declined, hitting a nadir of 0.2% in 2002. Signs of acceleration appeared in late spring of 2003, and the year will finish with growth of 0.6%. As the national recovery hits full stride in 2004, Maryland employment growth will reach 1.4%. In 2005, every sector of the State's economy will be growing greater than 1.0% with the exceptions of cyclical construction, troubled manufacturing and fiscally-straitjacketed government.



*Source: Bureau of Revenue Estimates of Maryland State Comptroller's Office, June 30, 2003.*

## MAJOR INITIATIVES

The budgets for the fiscal years ending June 30, 2003 and 2004 have been balanced on one-time fund sources. Reductions in on-going revenues have exacerbated the State's structural deficit. The 2004 budget reduces spending by elimination of vacant positions, reducing information technology costs and cutting expenditures in other areas.

New spending in 2004 is focused on local education and health care. "The Bridge to Excellence in Public Schools Act", passed during the 2002 Legislative Session, envisions gradual increases in the levels of state formula aid to local school systems. When this act is implemented the state will have provided \$1.3 billion in new education funding by fiscal year 2008. Another priority is the improvement of the delivery of health care by expanding access to health care and expanding community based services.

In addition, the capital budget provides support to construct new and improve existing facilities for public and higher education, provide support for environmental programs including restoration of the Chesapeake Bay ecosystem and water and wastewater infrastructure, and improve state and local correctional facilities.

## FINANCIAL INFORMATION

The MD&A provides an overview of the State's financial activities addressing both governmental and business-type activities reported in the government-wide financial statements. In addition, MD&A focuses on the State's major funds, governmental and enterprise. Fiduciary activities are excluded from the MD&A.

### *Internal Controls*

The State has issued guidelines to its agencies for establishing effective internal controls. As a recipient of federal assistance, the State is responsible for ensuring compliance with laws and regulations related to such assistance. This compliance is accomplished through the internal control guidelines. Additionally, the State is required to undergo an annual single audit in conformity with the provisions of the Federal Single Audit Act Amendments of 1996 and U.S. Office of Management and Budget Circular A-133, "Audits of States, Local Governments, and Non-Profit Organizations." Detail information related to the single audits is included in a separate reporting package.

### *Budget and Fiscal Policy*

The Maryland Constitution requires the Governor to submit to the General Assembly a balanced budget for the following year. The General Assembly cannot increase the budget except in certain organizational units. The budget currently uses a legally mandated budgetary fund structure. Each state agency is provided appropriations at a program level, which is the level at which expenditures cannot legally exceed the appropriations. The State also utilizes an encumbrance system to serve as a tool for managing available appropriations.

Maryland maintains its accounts to conform with generally accepted accounting principles and also to comply with the legally mandated budget. Financial control is generally exercised under the budgetary system.

### *Enterprise Operations*

The State's enterprise operations are comprised of governmental agencies and quasi-governmental agencies providing goods and/or services to the public on a user charge basis. These activities are financed and operated in a manner similar to private business enterprises. They operate with the intent to recover the costs of operations from those directly benefiting from the goods or services.

### *Fiduciary Funds*

Fiduciary fund types include the Pension and Other Employee Benefits Trust Funds, the Investment Trust Fund and the agency funds. The Pension and Other Employee Benefits Trust Funds include the State Retirement and Pension System of Maryland, the Maryland Transit Administration Pension Plan, and the Deferred Compensation Plan. The State Retirement and Pension System of Maryland was established to provide pension benefits for State employees and employees of 130 participating political subdivisions or other entities within the State. The Maryland Transit Administration Pension Plan was established to provide pension benefits for all Mass Transit Administration employees covered by a collective bargaining agreement and all management employees who were employed by the Baltimore Transit Company. The Deferred Compensation Plan accounts for participant earnings in accordance with Internal Revenue Code sections 457, 403(b), 401(a), and 401(k). Amounts are invested and are not subject to federal income taxes until paid to participants upon termination or retirement from employment, death or for an unforeseeable emergency.



The Investment Trust Fund reflects the transactions, assets, liabilities and fund equities of the Maryland Local Government Investment Pool. The Local Government Investment Pool is maintained to assist eligible participants, as defined by Article 95 and 22 of the Annotated Code of Maryland, by providing an investment medium in which they can invest their idle cash balances.

The agency funds are custodial in nature. The State uses agency funds to account for the receipt and disbursement of patient and prisoner accounts, the amounts the State invests for political subdivisions on a pooled basis, various taxes collected by the State for distribution to the Federal government and political subdivisions and amounts withheld from employees' payroll.

#### *Cash Management and Investments*

Substantially all cash and cash equivalents of the governmental fund types and certain enterprise and fiduciary funds and component units are maintained by the State Treasurer on a pooled basis.

The State Treasurer's office invests short-term cash balances on a daily basis in repurchase agreements, U.S. Treasury and agency obligations, and money market accounts. As of June 30, 2003, the State's cash resources for general governmental funds were invested as follows: in repurchase agreements, U.S. Treasury and agency obligations, money market accounts and other. The average yield on maturing investments during the year was 1.9%, as compared to 2.9% in the prior year. More detailed information concerning cash and investments can be found in Note 3 to the basic financial statements.

#### *Capital Assets*

These financial statements include the capital assets of the State. A discussion of capital assets accounting is included in the Management Discussion and Analysis that is part of the basic financial statements. More detailed information about capital assets can be found in Note 11 to the basic financial statements.

#### *Debt Administration*

The State Constitution authorizes general obligation long-term borrowing, subject to the approval of the General Assembly and the Board of Public Works. Under constitutional requirements and practice, the General Assembly, by separate enabling act, authorizes a particular loan for a particular project or purpose. Beginning with its 1990 session, the General Assembly annually has enacted a *Maryland Consolidated Capital Bond Act* (the "MCCBL") that consolidates within a single enabling act authorizations for various capital programs administered by State agencies and other projects for local governments or private institutions.

The Board of Public Works (the "Board"), a constitutional body composed of the Governor, the Comptroller, and the Treasurer, by resolution authorizes the issuance of bonds in a specified amount for part or the entire loan authorized by a particular enabling act. Since 1969, the Board has used its statutory authority to issue and sell general obligation bonds authorized by various separate enabling acts on a consolidated basis as a single issue designated as a "State and Local Facilities Loan" of a numerical series indicating the order of sale during a calendar year, the net proceeds being applied to the object or purpose designated in each separate enabling act.

In addition to the General Obligation bonds, there are outstanding Limited Obligation bonds of the Department of Transportation and the Maryland Transportation Authority. Debt service on the Department of Transportation bonds is provided principally from excise taxes levied by statute. Debt service on the Maryland Transportation Authority bonds is payable from revenues of Authority projects.

Additional disclosures about the State's general long-term obligations are provided in Note 12 to the basic financial statements.

#### *Risk Management*

The State is involved in legal proceedings, which normally occur in government operations. Such proceedings, in the opinion of the Attorney General, are not likely to have a material adverse impact on the financial position of the State's funds.

The State self-insures toward most claims of risk of loss, including general liability, property and casualty, workers' compensation, environmental and anti-trust liabilities and certain employee health benefits. All funds, agencies and authorities of the State participate in the self-insurance programs. As of June 30, 2003, the State has recorded \$294.9 million in liabilities associated with its self-insurance programs.

Commercial insurance coverage is purchased for specialized exposures such as aviation hull and liability, steam boiler coverage and certain transportation risks.

Additional disclosures on the State's risk management activities are provided in Note 13 to the basic financial statements.

## OTHER INFORMATION

The statutes of the State require an audit of every unit of the Executive and Judicial branches of government, including the Comptroller of Maryland's records, by the Legislative Auditor at least every three years. The Legislative Auditor is required to be and is a certified public accountant. The Legislative Auditor makes fiscal, compliance and performance audits of the various agencies and departments of the State and issues a separate report covering each of those audits. Although certain of those reports include presentations of detailed financial data and contain expressions of opinion thereon, the audits are usually not made for that purpose. The primary purpose of the reports is to present the Legislative Auditor's findings relative to the fiscal management of those agencies and departments.

Additionally, my office requires an audit of the State's basic financial statements by a firm of independent auditors selected by an audit selection committee composed of members from the Executive and Legislative branches of State government. This requirement has been complied with, and the opinion of Ernst & Young LLP has been included in the financial section of this report. In addition, Ernst & Young LLP performs an audit to meet the requirements of the federal Single Audit Act Amendments of 1996 and the Office of Management and Budget (OMB) Circular A-133, "Audits of States, Local Governments and Non-Profit Organizations"; such information being contained in another reporting package.

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the State of Maryland for its Comprehensive Annual Financial Report for the fiscal year ended June 30, 2002. The Certificate of Achievement is a prestigious national award recognizing conformance with the highest standards for preparation of state and local government financial reports.

In order to be awarded a Certificate of Achievement, a government unit must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. The State of Maryland has received a Certificate of Achievement for the last 23 consecutive years (fiscal years ended 1980-2002). We believe that our current comprehensive annual financial report continues to conform to the Certificate of Achievement Program requirements, and we are submitting it to the GFOA to determine its eligibility for another certificate.

The preparation of the Comprehensive Annual Financial Report on a timely basis could not have been accomplished without the efforts and dedication of the staff of the General Accounting Division with assistance from other personnel from the various departments and agencies of the State.

I will be pleased to furnish additional information on the State's finances upon request.

Sincerely,

A handwritten signature in black ink, reading "William Donald Schaefer". The signature is fluid and cursive, with the first name "William" being the most prominent.

William Donald Schaefer  
Comptroller of Maryland

## FINANCIAL SECTION

## Report of Independent Auditors

The Honorable William D. Schaefer  
Comptroller of Maryland

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the State of Maryland, as of and for the year ended June 30, 2003, which collectively comprise the State's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the State of Maryland's management. Our responsibility is to express opinions on these financial statements based on our audit.

We did not audit the financial statements of (1) Economic Development – Loan Programs; (2) Maryland State Lottery Agency; (3) Maryland Transportation Authority; (4) Economic Development – Insurance Programs; (5) State Use Industries; (6) Maryland Environmental Service; (7) Maryland Industrial Development Financing Authority; (8) Maryland Food Center Authority; (9) Maryland Local Government Investment Pool; (10) State Retirement and Pension System of Maryland; and (11) Deferred Compensation Plan which represent the percentages of the assets and revenues or additions of the opinion units listed below.

	Percentage of Opinion Unit	
	Total Assets	Total Revenues or Additions
Business-type activities:		
Economic Development - Loan Programs	54.13	10.91
Maryland State Lottery Agency	5.56	56.17
Maryland Transportation Authority	29.42	11.76
Economic Development - Insurance Programs	.08	.31
State Use Industries	.23	1.75
	<u>89.42</u>	<u>80.90</u>
Major Funds:		
Economic Development-Loan Programs	100	100
Maryland State Lottery Agency	100	100
Maryland Transportation Authority	100	100
Aggregate Discretely Presented Component Units:		
Maryland Environmental Service	1.60	2.19
Maryland Industrial Development Financing Authority	.71	.05
Maryland Food Center Authority	.41	.10
	<u>2.72</u>	<u>2.34</u>
Aggregate Remaining Fund Information:		
Economic Development - Insurance Programs	.30	.07
State Use Industries	.08	.41
Maryland Local Government Investment Pool	4.35	41.64
State Retirement and Pension System of Maryland	85.86	15.47
Deferred Compensation Plan	4.22	(.09)
	<u>94.81</u>	<u>57.50</u>

Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and in our opinion, insofar as it relates to the amounts included for the above-mentioned agencies and component units, is based on the reports of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the reports of other auditors provide a reasonable basis for our opinions.

As described in Note 1, the State has implemented GASB Statement No. 41, "Budgetary Comparison Schedules – Perspective Differences, an Amendment of GASB Statement No. 34", as of July 1, 2002.

In our opinion, based on the audit and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the State of Maryland, as of June 30, 2003, and the respective changes in financial position and cash flows, where applicable, thereof, for the year then ended in conformity with accounting principles generally accepted in the United States.

The management's discussion and analysis, required supplemental schedule of funding progress for the Pension and Retirement System, required supplemental schedules of funding progress, and employer contributions for the Maryland Transit Administration Pension Plan, and the respective budgetary comparison for the budgetary general, special and federal fund as listed in the table of contents are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We and the other auditors have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the State of Maryland's basic financial statements. The combining financial statements and schedules listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining financial statements and schedules have been subjected to the auditing procedures applied by us and the other auditors in the audit of the basic financial statements and, in our opinion, based on our audit and the reports of other auditors, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introductory and statistical sections of this report have not been subjected to the auditing procedures applied by us and the other auditors in the audit of the basic financial statements and, accordingly, we express no opinion on them.

*Ernst & Young LLP*

January 12, 2004

## STATE OF MARYLAND

### Management's Discussion and Analysis

Management of the State of Maryland provides this narrative overview and analysis of the financial activities of the State for the fiscal year ended June 30, 2003. Please read it in conjunction with the Comptroller's letter of transmittal, which can be found in the Introductory Section of this report and the State's financial statements which follow this section.

#### ***Financial Highlights***

##### *Government-wide*

- Maryland reported net assets of \$14.7 billion.
- Of this amount, a deficit of \$333 million was reported as total unrestricted net assets, which includes a \$1.5 billion deficit balance in governmental activities and \$1.2 billion balance in business-type activities.
- The State's total net assets decreased by \$962 million as a result of this year's operations. The net assets for governmental activities decreased by \$715 million (6.2%) while net assets of business-type activities decreased by \$247 million (5.8%).
- The State's governmental activities had total revenues of \$18.4 billion, total expenses of \$19.6 billion, net transfers from business-type activities of \$409 million, and special items of \$114 million, for a net decrease of \$715 million (6.2%).
- Business-type activities had total expenditures of \$2.2 billion, program revenues of \$2.3 billion, general revenues of \$14 million, and transfers out of \$409 million for a net decrease in fund balance of \$247 million (5.8%).
- Total State revenues were \$20.7 billion, while total costs for all programs were \$21.8 billion.

##### *Fund Level*

- Governmental funds reported a combined fund balance of \$1.7 billion, a decrease of \$511 million (22.7%) from the prior year.
- The General Fund reported an unreserved fund balance deficit of \$110 million compared to an unreserved fund balance of \$266 million last year, a decrease of \$376 million (141.5%). The total unreserved fund balance deficit in the governmental funds was \$107 million, a decrease in unreserved fund balance of \$376 million (139.7%) from the prior year.
- Governmental funds reported a total reserved fund balance of \$1.8 billion, of which, \$514 million was in the "State Reserve Fund" and available for future needs.

##### *Long-term Debt*

- Total debt outstanding at year end was \$8.1 billion, a net increase of \$442 million (5.8%) over the prior year.
- \$1.1 billion General Obligation Bonds were issued during the year, \$377 million of which were refunding bonds. The Department of Transportation issued \$607 million in bonds during the year, \$262 million of which were refunding bonds.

#### ***Overview of the Financial Statements***

This discussion and analysis is intended to serve as an introduction to the State of Maryland's basic financial statements. The State's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains additional required supplementary information and other supplementary information in addition to the basic financial statements.

##### ***Government-wide Financial Statements (Reporting the State as a Whole)***

The government-wide financial statements provide a broad overview of the State's operations in a manner similar to a private-sector business. The statements provide both short-term and long-term information about the State's financial position, which assists readers in assessing the State's economic condition at the end of the fiscal year. The statements include all fiscal year revenues and expenses, regardless of whether cash has been received or paid. The government-wide financial statements include the following two statements.

The *Statement of Net Assets* presents all of the State's non-fiduciary assets and liabilities, with the difference between the two reported as "net assets". Over time, increases and decreases in the State's net assets may serve as a useful indicator of whether the financial position of the State is improving or deteriorating.

The *Statement of Activities* presents information showing how the State's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will not result in cash flows until future fiscal periods (such as uncollected taxes and earned but unused vacation leave). This statement also presents a comparison between direct expenses and program revenues for each function of the State.

Both of the above financial statements distinguish between three types of state programs or activities. These three types of activities are as follows.

*Governmental Activities* – The activities in this section are typically supported by taxes and intergovernmental revenues, i.e., federal grants. Most services normally associated with State government fall into this category, including the Legislature, Judiciary, and the general operations of the Executive Department.

*Business-Type Activities* – These functions normally are intended to recover all or a significant portion of their costs through user fees and charges to external users of goods and services. These business-type activities of the State include insurance and loan programs for economic development, the Unemployment Insurance Program, the Lottery, the Transportation Authority and State Use Industries, a program which constructs office furnishings utilizing the prisons' inmate population.

*Discretely Presented Component Units* – The government-wide statements include operations for which the State has financial accountability, but are legally separate entities. Financial information for these component units is reported separately from the financial information presented for the primary government. The component unit activities include Higher Education, the Maryland Stadium Authority and other non-major proprietary activities. All of these entities operate similarly to private sector business and to the business-type activities described above. The component unit Higher Education consists of the University System of Maryland, Morgan State University, St. Mary's College and Baltimore City Community College. The non-major component units include the Maryland Food Center Authority, Maryland Environmental Service, Maryland Industrial Development Financing Authority, and the College Savings Plans of Maryland.

Complete financial statements of the individual component units can be obtained from the Comptroller of Maryland, LLG Treasury Building, Annapolis, Maryland 21404.

This report includes two schedules (pages 31 and 33) that reconcile the amounts reported on the governmental fund financial statements (modified accrual accounting) with governmental activities (accrual accounting) on the appropriate government-wide statements. The following summarizes the impact of transitioning from modified accrual-to-accrual accounting:

- Capital assets used in governmental activities are not reported on governmental fund statements.
- Certain tax revenues that are earned, but not available, are reported as deferred revenue on the governmental fund statements.
- Other long-term assets that are not available to pay for current period expenditures are deferred in governmental fund statements, but not deferred on the government-wide statements.
- Deferred bond issuance costs are capitalized and amortized as governmental activities, but reported as expenditures in the governmental fund statements.
- Unless due and payable, long-term liabilities, such as capital lease obligations, compensated absences, litigation, bonds and notes payable, and others only appear as liabilities in the government-wide statements.
- Capital outlays result in capital assets on the government-wide statements, but are reported as expenditures on the governmental fund statements.
- Bond and note proceeds result in liabilities on the government-wide statements, but are recorded as other financing sources on the governmental fund statements.
- Certain other outflows represent either increases or decreases in liabilities on the government-wide statements, but are reported as expenditures on the governmental fund statements.

The government-wide financial statements can be found on pages 26-29 of this report.



## ***Fund Financial Statements***

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The State, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The State's funds can be divided into three categories: governmental, enterprise, and fiduciary. Each of these categories uses a different accounting approach.

*Governmental funds* – Most of the basic services provided by the State are financed through governmental funds. Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, the governmental fund financial statements focus on near-term inflows and outflows of spendable resources and on the balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating the State's near-term financing requirements. These statements provide a detailed short-term view of the State's finances that assists in determining whether there will be adequate financial resources available to meet the current needs of the State.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the State's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities. These reconciliations are presented on the pages immediately following the governmental funds financial statements.

The State maintains five governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund and the Department of Transportation-special revenue fund, both of which are considered to be major funds. Data from the remaining three governmental funds are combined into a single, aggregated presentation. Data for the non-major governmental funds, namely, the debt service fund for general obligation bonds, the debt service fund for transportation revenue bonds and the capital projects fund, is provided in the form of combining statements elsewhere in this report. These funds are reported using modified accrual accounting, which measures cash and all other assets which can be readily converted to cash. The basic governmental funds financial statements can be found on pages 30-33 of this report.

*Enterprise funds* – Enterprise funds are used to show activities that operate similar to activities of commercial enterprises. Because these funds charge fees for services provided to outside customers including local governments, they are known as enterprise funds. Enterprise funds provide the same type of information as the government-wide financial statements, only in more detail. There is no reconciliation needed between the government-wide financial statements for business-type activities and the enterprise fund financial statements, because they both utilize accrual accounting; the same method used for businesses in the private sector.

The State has six enterprise funds, four of which are considered to be major enterprise funds. These funds are: Economic Development - Loan Programs, the Unemployment Insurance Program, the Lottery Agency, and the Transportation Authority. Data for the non-major enterprise funds, Economic Development - Insurance Programs and State Use Industries, are combined into a single aggregated presentation. Individual fund data for these non-major enterprise funds is provided in the form of combining statements elsewhere in this report.

The basic enterprise funds financial statements can be found on pages 36-41 of this report.

*Fiduciary funds* – Fiduciary funds are used to account for resources held for the benefit of parties outside the state government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of these funds are restricted in purpose and are not available to support the State's own programs. Fiduciary funds use accrual accounting.

The State's fiduciary funds include the Pension and Other Employee Benefits Trust Funds, the Investment Trust Fund and Agency Funds. The Pension and Other Employee Benefits Trust Funds consist of the Retirement and Pension System, the Maryland Transit Administration Pension Plan, and the Deferred Compensation Plan. The Investment Trust Fund accounts for the transactions, assets, liabilities and fund equity of an external investment pool. Agency funds account for the assets held for distribution by the State as an agent for other governmental units, organizations or individuals. Individual fund detail for the fiduciary funds can be found in the combining financial statements.

The basic fiduciary funds financial statements can be found on pages 42-43 of this report.

*Combining Financial Statements, Component Units* – The government-wide financial statements present information for the component units in a single aggregated column in the Statement of Net Assets and Statement of Activities. Combining Statement of Net Assets and Combining Statement of Revenues, Expenses, and Changes in Fund Net Assets have been provided for the Component Unit Proprietary Funds and provide detail for each major proprietary

component unit, with a combining column for the non-major component units. Individual financial statement information for the non-major component units is provided elsewhere in this report.

The combining financial statements for the component units can be found on pages 46-48 of this report.

### ***Notes to the Financial Statements***

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and the fund financial statements. The notes to the financial statements can be found on pages 50-86 of this report.

### ***Required Supplementary Information***

The required supplementary information includes budgetary comparison schedules for the budgetary general, special revenue and federal funds, along with a reconciliation of the statutory and Generally Accepted Accounting Principles (GAAP) fund balances at fiscal year end. This report also presents certain required supplementary information concerning the State's progress in funding its obligation to provide pension benefits to its employees and includes a footnote concerning budgeting and budgetary control. Required supplementary information immediately follows the notes to the financial statements.

### ***Other Supplementary Information***

#### ***Combining Financial Statements***

The combining financial statements referred to earlier in connection with non-major governmental, enterprise, and fiduciary funds and non-major component units are presented immediately following the required supplementary information.

### ***Government-Wide Financial Analysis***

The State's combined net assets (government and business-type activities) totaled \$14.7 billion at the end of 2003, compared to \$15.7 billion at the end of the previous year, a decrease of \$1.0 billion or 6.4% during the current fiscal year. This decrease represents the degree to which ongoing revenues, mainly income and sales and use taxes, have not kept pace with ongoing expenses.

	Net Assets as of June 30, (Expressed in Millions)					
	Governmental Activities		Business-type Activities		Primary Government Total	
	2003	2002	2003	2002	2003	2002
Current and other non-current assets	\$ 5,755	\$ 6,442	\$6,037	\$6,786	\$11,792	\$13,228
Capital assets	15,358	14,521	1,428	1,425	16,786	15,946
Total assets	21,113	20,963	7,465	8,211	28,578	29,174
Current liabilities	4,585	4,747	444	493	5,029	5,240
Long-term liabilities	5,749	4,722	3,062	3,512	8,811	8,234
Total liabilities	10,334	9,469	3,506	4,005	13,840	13,474
Net assets:						
Invested in capital assets, net of related debt	11,943	11,017	1,231	1,218	13,174	12,234
Restricted	378	11	1,519	1,378	1,897	1,389
Unrestricted	(1,542)	466	1,209	1,610	(333)	2,077
Total net assets	\$10,779	\$11,494	\$3,959	\$4,206	\$14,738	\$15,700

The largest portion of the State's net assets, 89.4%, reflects investment in capital assets such as land, buildings, equipment, and infrastructure, less any related debt to acquire those assets that is still outstanding. The State uses these capital assets to provide services to citizens. Consequentially, these assets are not available for future spending. Although the State's investment in capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

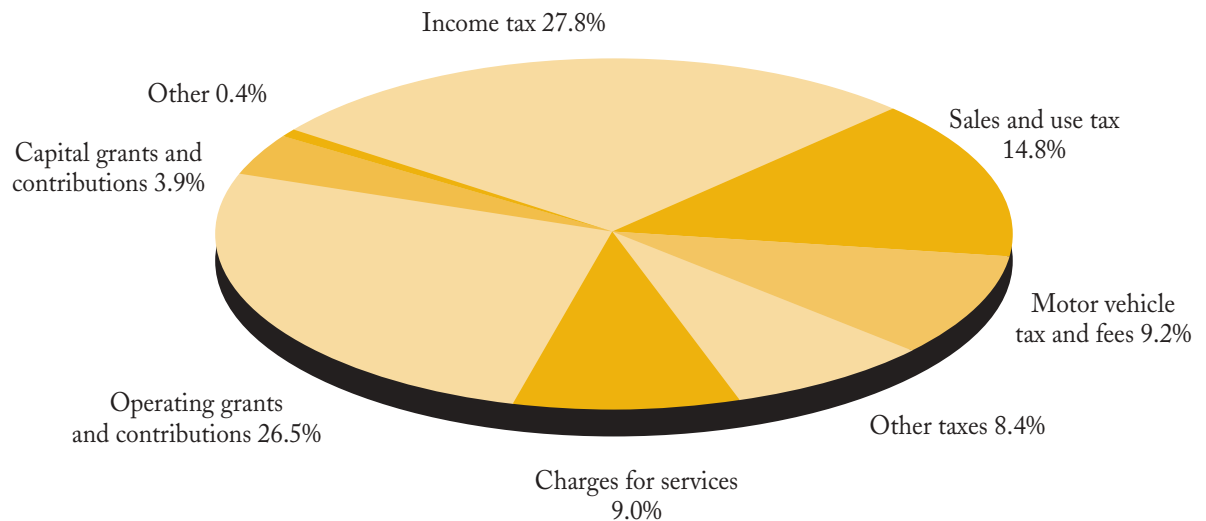
In addition, a portion of the State's net assets, \$1.9 billion (12.9%), represents resources that are subject to external restrictions or enabling legislation on how they may be used. The increase of the restricted balance over the prior year's balance reflects a change in the classification of certain revenues from unrestricted to restricted. The remaining deficit balance of unrestricted net assets, \$333 million, reflects the State's ongoing expenses exceeding revenues.

The following condensed financial information was derived from the government-wide Statement of Activities and reflects how the State's net assets changed during the fiscal year.

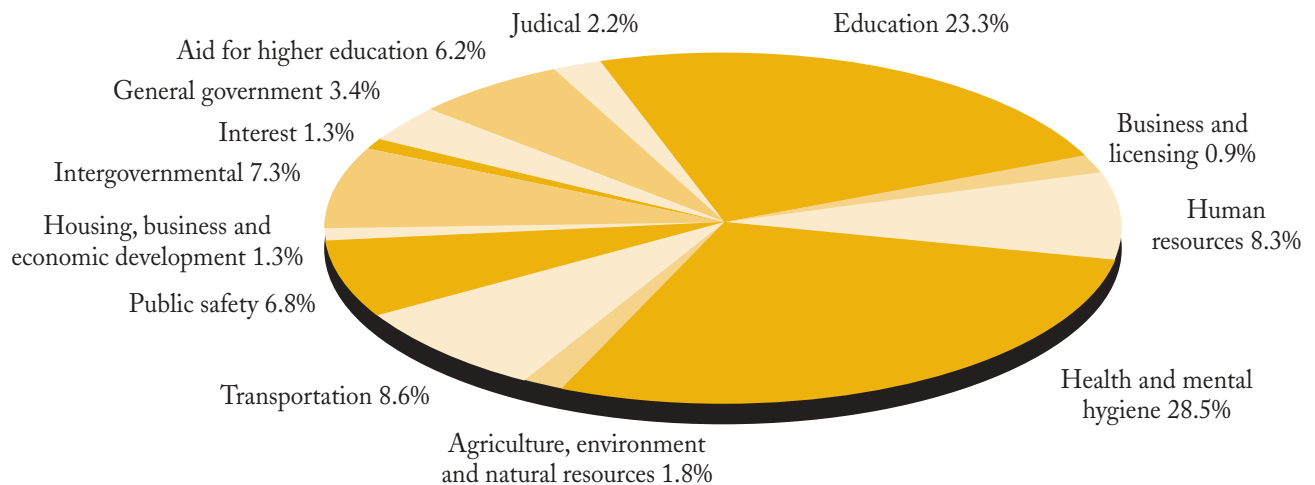
**Changes in Net Assets**  
**For fiscal years-ending June 30**  
(Expressed in Millions)

	Governmental Activities		Business-type Activities		Total Primary Government	
	2003	2002	2003	2002	2003	2002
Revenues:						
Program Revenues:						
Charges for services	\$ 1,654	\$ 1,608	\$2,164	\$1,554	\$ 3,818	\$ 3,162
Operating grants and contributions	4,844	4,225	136	235	4,980	4,460
Capital grants	722	747	40	54	762	801
General revenues:						
Income taxes	5,108	4,913			5,108	4,913
Sales and use taxes	2,720	2,690			2,720	2,690
Motor vehicle taxes	1,694	1,661			1,694	1,661
Other taxes	1,545	1,413		255	1,545	1,668
Unrestricted investment earnings	63	109	14	298	77	407
Total revenues	18,350	17,366	2,354	2,396	20,704	19,762
Expenses:						
General government	665	611			665	611
Health and mental hygiene	5,592	4,907			5,592	4,907
Education	4,573	4,460			4,573	4,460
Aid for higher education	1,212	1,201			1,212	1,201
Human resources	1,634	1,536			1,634	1,536
Public safety	1,338	1,195			1,338	1,195
Transportation	1,694	1,631			1,694	1,631
Judicial	429	409			429	409
Labor, licensing and regulation	183	174			183	174
Natural resources and recreation	168	149			168	149
Housing and community development	204	169			204	169
Environment	95	87			95	87
Agriculture	85	64			85	64
Business and economic development	43	56			43	56
Intergovernmental grants	1,422	1,375			1,422	1,375
Interest	251	210			251	210
Economic development insurance programs			3	5	3	5
Economic development loan programs			274	292	274	292
Unemployment insurance program			634	550	634	550
State Lottery			884	868	884	868
Transportation Authority			359	206	359	206
State Use Industries			38	39	38	39
Total expenses	19,588	18,234	2,192	1,960	21,780	20,194
Increase (decrease) in net assets before transfers and special items	(1,238)	(868)	162	436	(1,076)	(432)
Transfers	409	398	(409)	(398)		
Special items	114	25			114	25
Change in net assets	(715)	(445)	(247)	38	(962)	(407)
Net assets – beginning	11,494	11,939	4,206	4,168	15,700	16,107
Net assets – ending	\$10,779	\$11,494	\$3,959	\$4,206	\$14,738	\$15,700

## REVENUES BY SOURCE-GOVERNMENTAL ACTIVITIES



## EXPENSES BY FUNCTION-GOVERNMENTAL ACTIVITIES



### *Governmental Activities*

Governmental activities in fiscal year 2003 resulted in a decrease to the State's net assets of \$715 million. This decrease occurred primarily because while revenues increased by \$984 million or 5.7%, expenses increased by \$1.4 billion or 7.4%. The revenue increase was primarily due to an increase in federal aid of \$618 million and tax revenues of \$388 million, while the increase in expenses was primarily due to increases in health and mental hygiene of \$684 million, public safety, \$143 million, and education, \$123 million.

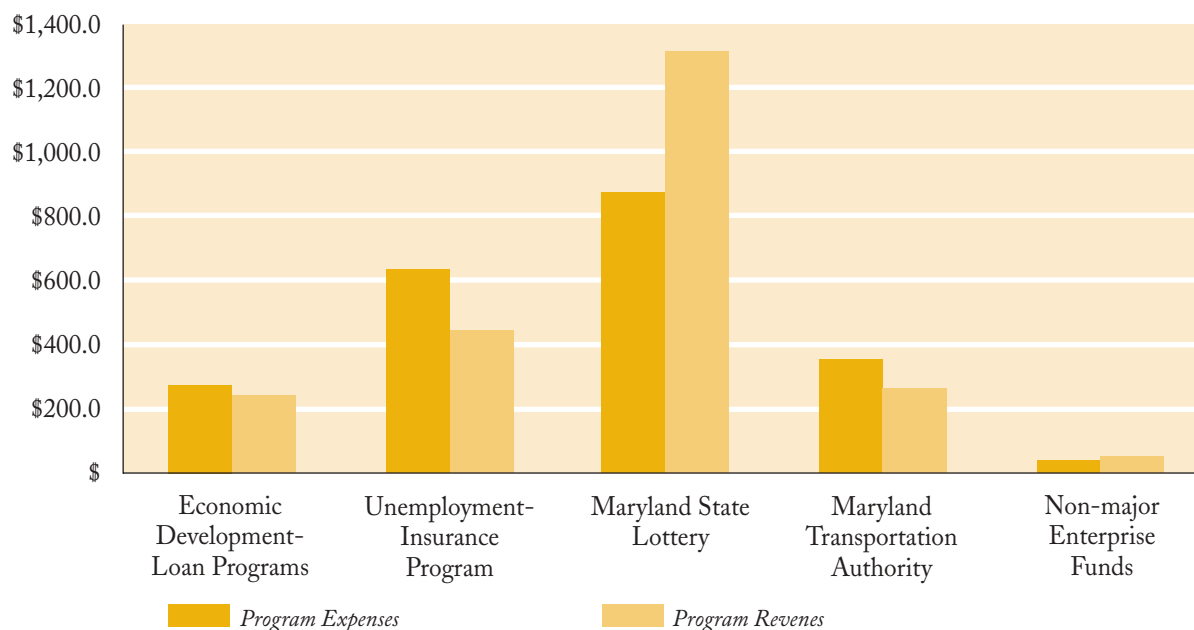
### *Business-type Activities*

Business-type activities increased the State's net assets by \$162 million before transfers of \$409 million to governmental activities. Key elements of this increase are as follows:

- Lottery ticket sales increased \$16 million, or 1.2 %, to \$1.3 billion. The increase in net assets after operating expenses was \$439 million. Transfers to the general fund were \$445 million, an increase of \$1 million, or .3%, over the prior year.
- Unemployment Insurance Program revenues increased by \$38 million, or 15.1%.
- Service charges by the Transportation Authority increased by \$16 million, or 8.6%.

## Expenses and Program Revenues-Business-Type Activities

(Expressed in Millions)



### *Financial Analysis of the State's Funds*

As of the end of the current fiscal year, the State's governmental funds reported a combined fund balance of \$1.7 billion, a decrease of \$511 million from the prior year. The combined fund balance includes a deficit of \$107 million in unreserved fund balance, of which \$110 million is in the general fund. The remainder of the fund balance is reserved to indicate that it is not available for new spending because it has been committed to: 1) liquidate contracts and purchase orders of the prior period, \$727 million; 2) fund prepaid and inventory items, \$387 million; 3) restricted revenue carry forwards, \$175 million; and 4) reserve for various loans, construction projects, and debt service, \$48 million. In addition, \$514 million of the reserved fund balance is in the "State Reserve Fund," and is set aside to meet future financial needs. The unreserved fund balance deficit, plus the amount in the State Reserve Fund, is approximately 2.0% of the total annual expenditures in governmental funds, compared with 4.8% for the prior year.

#### *General Fund*

The general fund is the major operating fund of the State. At the end of the current fiscal year, the undesignated fund balance of the general fund had a deficit of \$110 million, while total fund balance reached \$1.2 billion. The fund balance of the State's general fund decreased by \$450 million during 2003, compared to a decrease of \$840 million for 2002. General fund revenues increased by \$926 million over the prior year, primarily due to a \$611 million increase in federal revenues and a \$286 million increase in income and other taxes. However, general fund expenditures increased, by \$990 million, primarily due to increased spending of \$652 million on health and mental hygiene, \$90 million on public education, \$78 million on human resources and \$61 million on public safety. Transfers in from other sources and special items increased over the prior year by \$141 million, primarily due to increases of \$194 million from the Department of Transportation and \$114 million from the Injured Workers Insurance Fund, a related organization. Transfers out were \$429 million compared with \$733 million for the prior year, primarily due to the decrease in the general fund subsidies for capital construction.

#### *Special Revenue Fund*

The Maryland Department of Transportation special revenue fund accounts for resources used for operation other than debt service and pension activities of the State's transportation activities. Total revenues decreased by \$27 million, primarily due to a decrease in charges for services and federal revenues, even though motor vehicle taxes increased by \$33 million. Expenditures increased \$134 million, primarily due to increased grants to political subdivisions, administrative and operating expenditures and capital improvements. In addition, the special revenue fund transferred \$235 million to the General fund compared to \$41 million the prior year.

### ***General, Special, and Federal Revenue Fund Budgetary Highlights***

Differences between the original budget and the final amended budget and the final budget and the actual amount of expenditures for the year are summarized as follows.

Overall, the change between the original and final general fund budget was a decrease of \$130 million or 1.2%. This decrease was primarily a result of cost containment measures throughout the State with a slightly higher percentage in public education and juvenile services and a decrease in participation and eligibility in the Property Tax Credit Program. The actual general fund expenditures during the year were \$277 million less than the final general fund budget. Of this amount, \$129 million was returned to the general fund and the remaining \$148 million was encumbered for future spending.

Overall, the change between the original and final special fund budget was an increase of \$910 million or 21.6%. \$425 million of this increase was a result of budget amendments to provide spending authority to invest the proceeds of the refunding bonds and for debt service payments. This increase was also due to tobacco settlement reserves transferred to the Medicaid program, additional funds provided to the State Department of Education for the Bridge to Excellence and No Child Left Behind programs and the transfer of funding of several programs in the judicial function from general funds to special revenue funds.

The actual special fund expenditures during the year were \$665 million or 13.0% less than the final special fund budget. Of this amount, \$242 million has been encumbered for water quality, landfill and wetlands projects. Remaining appropriation amounts of \$18 million were reverted due to cancellations and completions of tire cleanup projects and revenue under-attainment. The transportation difference of \$106 million is primarily due to reversions from capital programs. In addition, certain amounts were encumbered for business and economic development financing projects. Furthermore, there were planned reductions in spending of cigarette restitution funds and reductions throughout the Department of Health and Mental Hygiene.

Overall, the change between the original and final federal fund budget was an increase of \$505 million. This increase was primarily due to increased federal support for Medicaid, bio-terrorism, public health and public education. Also, \$90 million of this increase was provided by the Tax Relief Act of 2003 and was used to replace general fund expenditures for the state police.

The actual federal fund expenditures during the year were \$574 million less than the final federal revenue fund budget primarily due to unexpended balances and encumbrances in the Department of Education's aid to public education and rehabilitation programs and in various programs of the Department of Human Resources. The difference was also due to delays in some transportation projects primarily with the Washington Metropolitan Area Transit and Section 8 housing construction.

### ***Capital Asset and Debt Administration***

#### ***Capital assets***

At June 30, 2003, the State had invested \$16.8 billion (net of accumulated depreciation) in a broad range of capital assets (see table below). Depreciation expense for the fiscal year totaled \$791 million (\$736 million for governmental activities and \$55 million for business-type activities). The total increase in the State's investment in capital assets for the current fiscal year was 5.3% (5.8% for governmental activities and .3% for business-type activities).

### **Capital Assets as of June 30,**

(Net of Depreciation, Expressed in Millions)

	Governmental Activities		Business-type Activities		Primary Government Total	
	2003	2002	2003	2002	2003	2002
Land and improvements	\$ 2,386	\$ 2,260	\$ 105	\$ 105	\$ 2,491	\$ 2,365
Art and historical treasures	27	27			27	27
Construction in progress	2,232	2,084			2,232	2,084
Structures and improvements	2,827	2,599	1	1	2,828	2,600
Equipment	797	733	15	15	812	748
Infrastructure	7,089	6,818	1,307	1,303	8,396	8,121
Total	\$15,358	\$14,521	\$1,428	\$1,424	\$16,786	\$15,945



Major capital asset events during the current fiscal year included the preservation of agricultural and open space land through the purchase of easements, the lease/purchase of electronic voting machines, purchase and upgrades to computer systems and the statewide telecommunications network, energy efficiency improvements in State buildings and building improvements by the Department of Public Safety.

Additional information on the State's capital assets can be found in footnote #11 of this report.

#### *Long-term debt*

The State is empowered by law to authorize, issue and sell general obligation bonds, which are backed by the full faith and credit of the State. The State also issues revenue dedicated bonds for the Department of Transportation and various business-type activities. The payment for bond principal and interest comes solely from revenues received from the respective activities. This revenue dedicated debt is not backed by the State's full faith and credit.

At June 30, 2003, the State had outstanding bonds totaling \$8.1 billion. Of this amount \$3.9 billion was debt backed by the full faith and credit of the State. The remaining \$4.2 billion was secured solely by the specified revenue sources.

### **Outstanding Bonded Debt as of June 30,**

(Expressed in Millions)

	Governmental Activities		Business-type Activities		Primary Government Total	
	2003	2002	2003	2002	2003	2002
General obligation bonds (backed by the State)	\$3,932	\$3,544			\$3,932	\$3,544
Transportation bonds (backed by specific revenues)	964	718			964	718
Revenue bonds (backed by specific revenues)			\$3,221	\$3,413	3,221	3,413
Total	\$4,896	\$4,262	\$3,221	\$3,413	\$8,117	\$7,675

The total increase in bonded debt for the State in the current fiscal year was 5.8% (10.9% related to general obligation bonds and 1.3% related to revenue bonds).

The State's general obligation bonds are rated Aaa by Moody's and AAA by Standard and Poors and Fitch.

During fiscal year 2003, the State issued general obligation debt totaling \$1.1 billion at a premium of \$125 million, including \$377 million to refinance existing debt to take advantage of favorable interest rates. The refinancing is expected to decrease future debt service payments by \$24 million.

State statutes limit the amount of Consolidated Transportation Bonds that may be outstanding as of June 30 to the amount established in the budget and not to exceed \$1.5 billion. The aggregate principal amount of those bonds that was allowed to be outstanding as of June 30, 2003, was \$1.1 billion. This amount was in excess of the \$961 million in Consolidated Transportation Bonds Outstanding.

Additional information on the State's long-term debt can be found in note #12 on pages of this report.

The ratios of net general obligation bonded debt to assessed property value, debt to present market value, and bonded debt per capita are considered to be useful indicators of the State's debt position to State management, citizens and investors. Data for fiscal years 1994 to 2003 are shown on the following page.



General Obligation Bonds	Amount (expressed in millions)	Ratio of Net Bonded Debt to Assessed Value	Ratio of Debt to Estimated Market Value	Bonded Debt Per Capita
2003	\$3,932	1.17%	1.17%	\$720
2002	3,544	1.11*	1.11	659
2001	3,451	2.81	1.12	652
2000	3,349	2.87	1.15	648
1999	3,500	3.10	1.23	682
1998	3,271	2.98	1.19	642
1997	3,025	2.82	1.13	596
1996	2,860	2.72	1.09	567
1995	2,619	2.54	1.02	519
1994	2,504	2.49	1.00	504

\*The Maryland General Assembly passed legislation at the 2000 Session to change the system of real property assessment from 40% to 100% of Market Value. This change was implemented on July 1, 2001.

Source: Office of Administration and Finance, Maryland State Comptroller's Office, 2003.

### ***Economic Factors and Next Year's Budget***

Maryland's economy continued to experience difficulties over the past year, as has the national economy. While the State's economy has slowed, it continues to outperform the national economy in many respects. Through fiscal year 2004, budget balance has been attained through one time and short term revenues. However, despite the addition of new revenues, including increases in the State property tax and corporate filing fees, and spending restraints, a significant structural shortfall exists. Overall economic growth in 2003 is turning out to be slower than originally forecasted. As a result, current economic forecasts show a weaker growth in 2003 and 2004. On July 30, 2003, the Governor proposed and the Board of Public Works adopted \$208 million in appropriation reductions for 2004, which included the abolition of 82 filled and 880 vacant positions. The cost containment reductions were achieved by substituting federal and special funds for general funds, cutting grants to higher education institutions and local governments, curbing government services, reducing the number of employees, and shifting costs to providers through rate reductions and to program recipients through fees.

### ***Requests for Information***

This financial report is designed to provide a general overview of the State's finances for all those with an interest in the State's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the General Accounting Division, Office of the Comptroller, P.O. Box 746, Annapolis, Maryland 21404.



## BASIC FINANCIAL STATEMENTS

## STATE OF MARYLAND

## Statement of Net Assets

June 30, 2003

(Expressed in Thousands)

	Primary Government			Component Units
	Governmental Activities	Business-type Activities	Total	
<b>Assets</b>				
Cash and cash equivalents	\$ 2,479,501	\$ 138,624	\$ 2,618,125	\$ 34,657
Investments	766,209	198,979	965,188	179,294
Endowment investments				172,519
Inventories	73,104	7,389	80,493	11,536
Prepaid items	313,399		313,399	2,607
Deferred charges	20,372		20,372	2,493
Taxes receivable, net	813,033		813,033	
Intergovernmental receivables	909,511	257	909,768	
Tuition contracts receivable				231,603
Due from primary government				602,853
Due from component units	2,443		2,443	
Other accounts receivable	210,964	144,697	355,661	131,889
Loans and notes receivable, net	25,142	750,855	775,997	72,673
Loans to component units	400		400	
Investment in direct financing leases		272,857	272,857	296,672
Other assets	12,940	8,322	21,262	17,440
Collateral for lent securities	75,935		75,935	
<b>Restricted assets:</b>				
Cash and cash equivalents	42,763	1,205,303	1,248,066	12,689
Investments		1,420,493	1,420,493	101,186
Deferred charges		17,218	17,218	
Due from primary government				762
Loans and notes receivable (net)	8,828	1,832,066	1,840,894	
Other		39,889	39,889	
<b>Capital assets (net of accumulated depreciation):</b>				
Land	2,386,186	105,080	2,491,266	102,077
Art and historical treasures	26,883		26,883	
Structures and other improvements	2,827,495	418	2,827,913	2,384,150
Equipment	796,626	14,944	811,570	262,787
Infrastructure	7,089,085	1,307,461	8,396,546	115,486
Construction in progress	2,231,964		2,231,964	455,849
Total capital assets	15,358,239	1,427,903	16,786,142	3,320,349
Total assets	21,112,783	7,464,852	28,577,635	5,191,222

	Primary Government			Component Units
	Governmental Activities	Business-type Activities	Total	
<b>Liabilities</b>				
Salaries payable .....	222,610		222,610	4,928
Vouchers payable .....	304,152		304,152	
Accounts payable and accrued liabilities .....	964,654	70,136	1,034,790	263,261
Internal balances .....	407,917	(407,917)		
Due to component units .....	603,615		603,615	
Due to primary government .....				2,443
Loans from primary government .....				400
Accounts payable to political subdivisions .....	192,371		192,371	
Unearned revenue .....	41,727	8,991	50,718	70,438
Accrued insurance on loan losses .....		24,559	24,559	6,177
Accrued tuition benefits .....				395,449
Accounts payable for local income taxes .....	1,024,433		1,024,433	
Other liabilities .....				14,126
Collateral obligations for lent securities .....	75,935		75,935	
Payables from restricted assets:				
Accounts payable and accrued liabilities .....		128,708	128,708	
Matured bonds and interest coupons payable .....	3,970		3,970	
Other liabilities .....		28,590	28,590	
Revenue bonds payable .....		2,665,638	2,665,638	
Bonds and notes payable:				
Due within one year .....	424,925		424,925	65,645
Due in more than one year .....	4,660,697	555,159	5,215,856	1,259,064
Other noncurrent liabilities:				
Due within one year .....	318,310	194,793	513,103	52,234
Due in more than one year .....	1,088,312	236,907	1,325,219	108,489
Total liabilities .....	10,333,628	3,505,564	13,839,192	2,242,654
<b>Net Assets</b>				
Invested in capital assets, net of related debt .....	11,943,249	1,231,338	13,174,587	2,352,601
Restricted for:				
Health and mental hygiene .....	26,048		26,048	
Public safety .....	44,387		44,387	
Natural resources and recreation .....	62,705		62,705	
Transportation .....	138,168		138,168	
Debt service .....	44,682	59,005	103,687	3,871
Capital improvements and deposits .....	14,517	188,344	202,861	12,379
Higher education-nonexpendable .....				124,709
Higher education-expendable .....				51,298
Loans and notes receivable .....	8,828		8,828	73,313
Unemployment compensation benefits .....		768,057	768,057	
Loan programs .....		405,664	405,664	
Insurance programs .....		94,871	94,871	
Other .....	38,493	3,055	41,548	
Unrestricted (deficit) .....	(1,541,922)	1,208,954	(332,968)	330,397
Total net assets .....	\$10,779,155	\$3,959,288	\$14,738,443	\$2,948,568

The accompanying notes to the financial statements are an integral part of these financial statements.

# STATE OF MARYLAND

## Statement of Activities For the Year Ended June 30, 2003 (Expressed in Thousands)

Functions/Programs	Program Revenues				Net (Expense) Revenue and Changes in Net Assets			Component Units
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government			
					Governmental Activities	Business-type Activities	Total	
Primary government:								
Governmental activities:								
General government	\$ 665,133	\$ 325,115	\$ 90,608	\$ 373	\$ (249,037)		\$ (249,037)	
Health and mental hygiene	5,592,272	224,300	2,456,526		(2,911,446)		(2,911,446)	
Education	4,573,056	74,494	722,038		(3,776,524)		(3,776,524)	
Aid for higher education	1,211,569				(1,211,569)		(1,211,569)	
Human resources	1,633,461	43,776	1,015,940		(573,745)		(573,745)	
Public safety	1,338,202	60,197	136,237	5,725	(1,136,043)		(1,136,043)	
Transportation	1,694,321	526,253	76,839	703,263	(387,966)		(387,966)	
Judicial	429,302	276,787	4,182		(148,333)		(148,333)	
Labor, licensing and regulation	182,584	26,795	140,979		(14,810)		(14,810)	
Natural resources and recreation	168,107	32,556	21,345	763	(113,443)		(113,443)	
Housing and community development	203,946	14,081	152,345	12,292	(25,228)		(25,228)	
Environment	95,079	23,226	23,348		(48,505)		(48,505)	
Agriculture	85,426	25,966	2,805		(56,655)		(56,655)	
Business and economic development	43,387	2,099	735		(40,553)		(40,553)	
Intergovernmental grants	1,422,007				(1,422,007)		(1,422,007)	
Interest	250,558				(250,558)		(250,558)	
Total governmental activities	19,588,410	1,655,645	4,843,927	722,416	(12,366,422)		(12,366,422)	
Business-type activities:						\$		
Economic development - insurance programs	2,938	7,180				4,242	4,242	
Economic development - general loan programs	48,633	5,750				(42,883)	(42,883)	
Economic development - water quality loan programs	11,510	19,511		40,251		48,252	48,252	
Economic development - housing loan programs	213,404	184,291				(29,113)	(29,113)	
Unemployment insurance program	633,904	341,004	108,652			(184,248)	(184,248)	
Maryland State Lottery	883,736	1,322,239				438,503	438,503	
Maryland Transportation Authority	359,015	242,429	27,461			(89,125)	(89,125)	
State Use Industries	38,178	41,127				2,949	2,949	
Total business-type activities	2,191,318	2,163,531	136,113	40,251		148,577	148,577	
Total primary government	\$ 21,779,728	\$ 3,819,176	\$ 4,980,040	\$ 762,667	(12,366,422)	148,577	(12,217,845)	

Component units:							
Higher education .....	\$ 2,983,532	\$ 1,216,189	\$ 906,374	\$ 242,328			\$ (618,641)
Maryland Stadium Authority .....	56,565	27,697	24,772	14,720			10,624
Other component units .....	215,080	162,866		1,424			(50,790)
Total component units .....	<u>\$ 3,255,177</u>	<u>\$ 1,406,752</u>	<u>\$ 931,146</u>	<u>\$ 258,472</u>			<u>(658,807)</u>
General revenues:							
Income taxes .....					5,107,593	5,107,593	
Sales and use taxes .....					2,719,547	2,719,547	
Motor vehicle taxes .....					1,693,736	1,693,736	
Other taxes .....					1,545,013	1,545,013	
Grants and contributions							
not restricted to specific programs .....					62,611	13,950	866,722
Unrestricted investment earnings .....					114,200		29,120
Special items .....							
Transfers .....					409,124	(409,124)	
Total general revenues, special items, and transfers. ....					11,651,824	(395,174)	
Change in net assets .....					(714,598)	(246,597)	
Net assets - beginning .....					11,493,753	4,205,885	
Net assets - ending .....					<u>\$ 10,779,155</u>	<u>\$ 3,959,288</u>	<u>\$ 2,948,568</u>

The accompanying notes to the financial statements are an integral part of these financial statements.



# STATE OF MARYLAND

## Balance Sheet

### Governmental Funds

June 30, 2003

(Expressed in Thousands)

	General	Special Revenue Maryland Department of Transportation	Other Governmental Funds	Total Governmental Funds
<b>Assets:</b>				
Cash and cash equivalents	\$2,459,205		\$ 20,296	\$2,479,501
Cash and cash equivalents - restricted		\$ 35,337	2,544	37,881
Cash with fiscal agent - restricted			4,882	4,882
Investments	765,984		225	766,209
Prepaid items	313,399			313,399
Taxes receivable, net	721,725	84,509	6,799	813,033
Intergovernmental receivables	752,055	157,456		909,511
Other accounts receivable	163,969	55,836	583	220,388
Due from other funds	98,035	204,540	332,982	635,557
Due from component units	2,443			2,443
Inventories	21,705	51,399		73,104
Loans and notes receivable, net	2,118	9,545	13,479	25,142
Loans and notes receivable - restricted			8,828	8,828
Loans to component units	400			400
Collateral for lent securities	75,935			75,935
Total assets	\$5,376,973	\$598,622	\$390,618	\$6,366,213
<b>Liabilities:</b>				
Salaries payable	\$ 201,362	\$ 21,248		\$ 222,610
Vouchers payable	242,257	19,248	\$ 42,647	304,152
Accounts payable and accrued liabilities	661,528	212,301	21,787	895,616
Due to other funds	1,014,374	29,100		1,043,474
Due to component units	603,615			603,615
Accounts payable to political subdivisions	1,147,274	69,530		1,216,804
Deferred revenue	156,145	11,015	156	167,316
Matured bonds and interest coupons payable			3,970	3,970
Accrued self-insurance costs	89,815			89,815
Collateral obligations for lent securities	75,935			75,935
Total liabilities	4,192,305	362,442	68,560	4,623,307
<b>Fund balances:</b>				
Reserved for:				
State reserve fund	513,607			513,607
Encumbrances	273,809	22,004	431,549	727,362
Prepaid items and inventories	335,104	51,399		386,503
Loans and notes receivable	859	9,545	21,775	32,179
Construction projects		14,517		14,517
Restricted revenues	171,633	3,005		174,638
Debt service			920	920
Unreserved:				
Undesignated, (deficit) reported in:				
General fund	(110,344)			(110,344)
Special revenue fund		135,710		135,710
Non-major debt service funds			30,815	30,815
Non-major capital projects fund			(163,001)	(163,001)
Total fund balance	1,184,668	236,180	322,058	1,742,906
Total liabilities and fund balances	\$5,376,973	\$598,622	\$390,618	\$6,366,213

The accompanying notes to the financial statements are an integral part of these financial statements.

# STATE OF MARYLAND

## Reconciliation of the Governmental Funds' Fund Balance to the Statement of Net Assets, Net Assets' Balance June 30, 2003

(Expressed in Thousands)

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Amounts reported for governmental activities in the Statement of Net Assets (page 27) differ from the amounts for the governmental funds' fund balances because:	
Amount in governmental funds, fund balance (page 30) . . . . .	\$ 1,742,906
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds . . . . .	15,358,239
Taxes and other receivables that will not be available to pay for current-period expenditures and, therefore, are deferred in the funds . . . . .	125,589
Accrued interest payable on bonds and capital leases are not liquidated with current financial resources in the governmental funds . . . . .	(86,137)
Other long-term assets not available to pay for current period expenditures . . . . .	12,940
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the funds:	
General Obligation Bonds . . . . .	(3,932,493)
Deferred charges to be amortized over the life of the debt . . . . .	27,163
Premiums to be amortized over the life of the debt . . . . .	(153,696)
Transportation Bonds . . . . .	(964,400)
Deferred charges to be amortized over the life of the debt . . . . .	8,035
Premiums to be amortized over the life of the debt. . . . .	(59,283)
Accrued self-insurance costs . . . . .	(172,406)
Accrued annual leave . . . . .	(231,306)
Other long term liabilities. . . . .	(336,532)
Obligations under capital leases . . . . .	(262,792)
Obligations under capital leases with component units . . . . .	(296,672)
Net assets of governmental activities (page 27) . . . . .	<u>\$10,779,155</u>

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The accompanying notes to the financial statements are an integral part of these financial statements.

STATE OF MARYLAND

**Statement of Revenues, Expenditures,  
and Changes in Fund Balances**

**Governmental Funds**

**For the Year Ended June 30, 2003**

(Expressed in Thousands)

	General	Special Revenue Maryland Department of Transportation	Other Governmental Funds	Total Governmental Funds
<b>Revenues:</b>				
Income taxes . . . . .	\$ 5,080,359			\$ 5,080,359
Sales and use taxes . . . . .	2,717,383			2,717,383
Motor vehicle taxes and fees . . . . .		\$1,693,736		1,693,736
Other taxes . . . . .	1,260,260		\$ 284,753	1,545,013
Other licenses and fees . . . . .	544,456			544,456
Charges for services . . . . .	443,870	331,982		775,852
Revenues pledged as security for bonds . . . . .		69,108		69,108
Interest and other investment income . . . . .	45,060	3,046	3,198	51,304
Federal revenue . . . . .	4,795,545	710,994		5,506,539
Other . . . . .	222,226	38,185	815	261,226
Total revenues . . . . .	15,109,159	2,847,051	288,766	18,244,976
<b>Expenditures:</b>				
Current:				
General government . . . . .	638,256			638,256
Health and mental hygiene . . . . .	5,545,991			5,545,991
Education . . . . .	4,364,165		203,818	4,567,983
Aid to higher education . . . . .	902,001		309,568	1,211,569
Human resources . . . . .	1,614,493			1,614,493
Public safety . . . . .	1,326,612			1,326,612
Transportation . . . . .		1,123,564		1,123,564
Judicial . . . . .	421,702			421,702
Labor, licensing and regulation . . . . .	181,835			181,835
Natural resources and recreation . . . . .	175,845			175,845
Housing and community development . . . . .	205,501			205,501
Environment . . . . .	95,500			95,500
Agriculture . . . . .	83,384			83,384
Business and economic development . . . . .	43,441			43,441
Intergovernmental . . . . .	433,642	757,711	230,654	1,422,007
Capital outlays . . . . .		1,335,320	128,790	1,464,110
Debt service:				
Principal retirement . . . . .			421,859	421,859
Interest . . . . .			203,701	203,701
Bond issuance costs . . . . .	165	347	1,784	2,296
Total expenditures . . . . .	16,032,533	3,216,942	1,500,174	20,749,649
Deficiency of revenues under expenditures . . . . .	(923,374)	(369,891)	(1,211,408)	(2,504,673)
<b>Other sources (uses) of financial resources:</b>				
Capital leases . . . . .	53,338	48,476		101,814
Other long-term liabilities . . . . .		171,239		171,239
Bonds issued and premiums . . . . .		381,318	814,881	1,196,199
Refunding bonds issued and premiums . . . . .		273,819	411,775	685,594
Payments to refunded bond escrow agent . . . . .		(273,819)	(410,878)	(684,697)
Transfers in . . . . .	734,716	116,136	393,743	1,244,595
Transfers out . . . . .	(428,653)	(362,447)	(44,371)	(835,471)
Total other sources (uses) of financial resources . . . . .	359,401	354,722	1,165,150	1,879,273
Special items . . . . .	114,200			114,200
Net change in fund balances . . . . .	(449,773)	(15,169)	(46,258)	(511,200)
Fund balances, July 1, 2002 . . . . .	1,634,441	251,349	368,316	2,254,106
Fund balances, June 30, 2003 . . . . .	\$ 1,184,668	\$ 236,180	\$ 322,058	\$ 1,742,906

The accompanying notes to the financial statements are an integral part of these financial statements.

# STATE OF MARYLAND

## Reconciliation of the Statement of the Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities

For the Year Ended June 30, 2003

(Expressed in Thousands)

Amounts reported for governmental activities in the Statement of Activities (pages 28-29) are different from the amounts reported in the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds because of the following:

Net change in fund balances - total governmental funds (page 32) . . . . .		\$(511,200)
Governmental funds report capital outlays as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceed depreciation in the current period.		
Capital outlays . . . . .	1,590,585	
Depreciation expense . . . . .	(735,599)	854,986
The net effect of various miscellaneous transactions involving capital assets (i.e., sales, trade-ins, and donations) is to decrease net assets.		
Net loss on disposals and trade-ins . . . . .	(10,157)	(10,157)
Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the governmental funds:		
Deferred revenues for taxes are recognized, net of revenue already recognized in the prior year . . . . .	29,398	
Deferred revenues for other revenues are recognized, net of revenue already recognized in the prior year . . . . .	(17,666)	
Deferred charges for other long-term assets . . . . .	9,424	21,156
The issuance of long term debt (e.g. bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long term debt consumes current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, the governmental funds report the effect of issuance costs, premiums, discounts and similar items when debt is first issued, whereas these amounts are deferred and amortized in the Statement of Activities. This amount is the net effect of these differences in the treatment of long term debt and related items.		
Debt issued, General Obligation Bonds . . . . .	(1,226,657)	
Debt issued, Transportation Bonds . . . . .	(655,136)	
Capital lease financing . . . . .	(110,555)	
Other long-term financing . . . . .	(157,769)	
Discounts and issuance costs . . . . .	14,841	
Principal repayments:		
General Obligation Bonds . . . . .	737,573	
Transportation Bonds . . . . .	360,985	
Capital leases . . . . .	62,250	
Other long-term financing . . . . .	13,130	(961,338)
Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds:		
Compensated absences . . . . .	(9,108)	
Self-insurance . . . . .	(15,815)	
Accrued interest . . . . .	(24,529)	
Other long term liabilities . . . . .	(58,593)	(108,045)
Change in net assets of governmental activities (page 29) . . . . .		(\$714,598)

The accompanying notes to the financial statements are an integral part of these financial statements.



STATE OF MARYLAND  
ENTERPRISE FUND FINANCIAL STATEMENTS

**Major Funds**

**Economic Development Loan Programs**

This fund includes the direct loan programs of the Maryland Departments of Housing and Community Development, Business and Economic Development and Environment.

**Unemployment Insurance Program**

This fund reflects the transactions, assets, liabilities and net assets of the Unemployment Insurance Program and is used to account for the unemployment assessments collected from employers, federal revenue received and remittance of benefits to the unemployed.

**Maryland State Lottery Agency**

This fund accounts for the operation of the State Lottery.

**Maryland Transportation Authority**

This fund accounts for the activity of the Maryland Transportation Authority, which is responsible for the operation and maintenance of toll roads, bridges and tunnels around the State.

**Non-major Funds**

**Other Enterprise Funds**

Individual non-major enterprise funds are presented in the combining section following the footnotes.

## STATE OF MARYLAND

## Statement of Net Assets

## Enterprise Funds

June 30, 2003

(Expressed in Thousands)

	Economic Development Loan Programs	Unemployment Insurance Program	Maryland State Lottery Agency	Maryland Transportation Authority	Other Enterprise Funds	Total
Assets:						
Current assets:						
Cash and cash equivalents . . . . .		\$ 1,696	\$ 1,200	\$ 135,718	\$ 10	\$ 138,624
Investments . . . . .	\$ 64,697			109,105		173,802
Other accounts receivable . . . . .	9,635	90,428	24,535	14,770	5,329	144,697
Due from other funds . . . . .	274,424		82,151		15,468	372,043
Intergovernmental receivables . . . . .				257		257
Inventories . . . . .				1,175	6,214	7,389
Loans and notes receivable, net . . . . .	33,530				1,324	34,854
Investment in direct financing leases . . . . .				2,238		2,238
Other assets . . . . .	191		56		3,700	3,947
Current restricted assets:						
Cash and cash equivalents . . . . .	376,042			131,962		508,004
Cash on deposit with U.S. Treasury . . . . .		697,299				697,299
Investments . . . . .	275,965		157,478	109,164		542,607
Due from other funds . . . . .			9,938		94,871	104,809
Loans and notes receivable, net . . . . .	55,606					55,606
Other assets . . . . .	39,159					39,159
Total current assets . . . . .	1,129,249	789,423	275,358	504,389	126,916	2,825,335
Non-current assets:						
Investments . . . . .	24,310				867	25,177
Due from other funds . . . . .				10,420		10,420
Loans and notes receivable, net . . . . .	715,350				651	716,001
Investment in direct financing leases . . . . .				270,619		270,619
Other assets . . . . .	2,665			1,625	85	4,375
Restricted non-current assets:						
Investments . . . . .	649,104		228,782			877,886
Deferred charges . . . . .	17,218					17,218
Loans and notes receivable, net . . . . .	1,776,460					1,776,460
Other assets . . . . .	730					730
Capital assets (net of accumulated depreciation):						
Land . . . . .				105,080		105,080
Structures and improvements . . . . .					418	418
Equipment . . . . .	49		3,129	7,358	4,408	14,944
Infrastructure . . . . .				1,307,364	97	1,307,461
Total non-current assets . . . . .	3,185,886		231,911	1,702,466	6,526	5,126,789
Total assets . . . . .	4,315,135	789,423	507,269	2,206,855	133,442	7,952,124



	Economic Development Loan Programs	Unemployment Insurance Program	Maryland State Lottery Agency	Maryland Transportation Authority	Other Enterprise Funds	Total
Liabilities:						
Current liabilities:						
Accounts payable and accrued liabilities . . . . .	9,158		4,113	53,086	3,779	70,136
Due to other funds . . . . .			77,891			77,891
Accrued insurance and loan losses. . . . .	165				24,394	24,559
Other liabilities . . . . .	191		189,923	3,950	729	194,793
Deferred revenue. . . . .			2,847	3,424	2,720	8,991
Current liabilities payable from restricted assets:						
Accounts payable and accrued liabilities . . . . .	107,342	21,366				128,708
Due to other funds . . . . .	1,464					1,464
Other liabilities . . . . .	2,387					2,387
Revenue bonds payable . . . . .	402,438			20,455		422,893
Total current liabilities. . . . .	523,145	21,366	274,774	80,915	31,622	931,822
Non-current liabilities:						
Other liabilities . . . . .			230,307	6,060	540	236,907
Revenue bonds payable . . . . .				555,159		555,159
Non-current liabilities payable from restricted assets:						
Other liabilities . . . . .	26,203					26,203
Revenue bonds payable . . . . .	2,242,745					2,242,745
Total non-current liabilities. . . . .	2,268,948		230,307	561,219	540	3,061,014
Total liabilities . . . . .	2,792,093	21,366	505,081	642,134	32,162	3,992,836
Net Assets:						
Invested in capital assets, net of related debt . . . . .	49		758	1,225,608	4,923	1,231,338
Restricted for:						
Debt service . . . . .				59,005		59,005
Capital improvements. . . . .				188,344		188,344
Unemployment compensation benefits. . . . .		768,057				768,057
Loan programs . . . . .	405,664					405,664
Insurance programs. . . . .					94,871	94,871
Other . . . . .			1,430	1,625		3,055
Unrestricted. . . . .	1,117,329			90,139	1,486	1,208,954
Total net assets . . . . .	\$1,523,042	\$ 768,057	\$ 2,188	\$ 1,564,721	\$ 101,280	\$3,959,288

The accompanying notes to the financial statements are an integral part of these financial statements.

STATE OF MARYLAND

**Statement of Revenues, Expenses  
and Changes in Fund Net Assets**

**Enterprise Funds**

**For the Year Ended June 30, 2003**

(Expressed in Thousands)

	Economic Development Loan Programs	Unemployment Insurance Program	Maryland State Lottery Agency	Maryland Transportation Authority	Other Enterprise Funds	Total
Operating revenues:						
Lottery ticket sales . . . . .			\$1,322,239			\$1,322,239
Charges for services and sales (net of allowances of \$24,775) . . . . .	\$ 7,070	\$292,855		\$ 205,904	\$ 45,745	551,574
Interest on loan income . . . . .	152,207				571	152,778
Unrestricted interest and other investment income . .	5,663					5,663
Restricted interest and other investment income . .	14,931					14,931
Other . . . . .	4,150			27,461	9	31,620
Total operating revenues . . . . .	184,021	292,855	1,322,239	233,365	46,325	2,078,805
Operating expenses:						
Prizes and claims . . . . .			743,417			743,417
Commissions and bonuses . . . . .			87,118			87,118
Cost of sales and services . . . . .					32,081	32,081
Operation and maintenance of facilities . . . . .	3,559			260,889		264,448
General and administrative . . . . .	26,190		51,191	9,259	8,118	94,758
Benefit payments . . . . .		633,904				633,904
Interest . . . . .	6,862					6,862
Depreciation and amortization . . . . .	54		1,831	52,403	1,136	55,424
Provision for (reduction in) insurance and loan losses.. . . .	34,678				(219)	34,459
Other . . . . .	30,359					30,359
Total operating expenses . . . . .	101,702	633,904	883,557	322,551	41,116	1,982,830
Net operating income (loss) . . . . .	82,319	(341,049)	438,682	(89,186)	5,209	95,975
Non-operating revenues (expenses):						
Unrestricted interest and other investment income . .	1,352			6,932	3	8,287
Restricted interest and other investment income . . .	31,194	48,149		36,525	1,964	117,832
Interest expense . . . . .	(138,303)		(179)	(36,464)		(174,946)
Federal grants and distributions . . . . .		108,652				108,652
Other . . . . .	(33,542)				18	(33,524)
Total non-operating revenues (expenses) . . . . .	(139,299)	156,801	(179)	6,993	1,985	26,301
Income (loss) before contributions and transfers	(56,980)	(184,248)	438,503	(82,193)	7,194	122,276
Capital contributions . . . . .	40,251					40,251
Transfers in . . . . .	65,825					65,825
Transfers out . . . . .	(18,052)		(444,897)		(12,000)	(474,949)
Change in net assets . . . . .	31,044	(184,248)	(6,394)	(82,193)	(4,806)	(246,597)
Total net assets - beginning . . . . .	1,491,998	952,305	8,582	1,646,914	106,086	4,205,885
Total net assets-ending . . . . .	\$1,523,042	\$768,057	\$ 2,188	\$1,564,721	\$101,280	\$3,959,288

The accompanying notes to the financial statements are an integral part of these financial statements.



**STATE OF MARYLAND**

**Statement of Cash Flows**

**Enterprise Funds**

**For the Year Ended June 30, 2003**

(Expressed in Thousands)

	Economic Development Loan Programs	Unemployment Insurance Program	Maryland State Lottery Agency	Maryland Transportation Authority	Other Enterprise Funds	Total
Cash flows from operating activities:						
Receipts from customers . . . . .	\$573,011	\$293,204	\$1,321,070	\$ 218,830	\$46,419	\$2,452,534
Payments to suppliers . . . . .	(1,663)		(45,308)	(154,319)	(27,016)	(228,306)
Payments to employees . . . . .	(8,795)		(10,304)	(62,985)	(13,009)	(95,093)
Other receipts (payments) . . . . .	(425,229)	(642,196)	(820,251)	19,115	4,765	(1,863,796)
Lottery installment payments . . . . .			(53,016)			(53,016)
Net cash provided (used) by operating activities . .	137,324	(348,992)	392,191	20,641	11,159	212,323
Cash flows from noncapital financing activities:						
Proceeds from the sale of revenue bonds . . . . .	304,775					304,775
Payment on revenue bonds . . . . .	(404,849)			(14,240)		(419,089)
Interest payments . . . . .	(148,092)			(6,962)		(155,054)
Transfers in . . . . .	65,856					65,856
Transfers out . . . . .	(17,881)		(444,897)		(2,000)	(464,778)
Capital contributions . . . . .	40,251					40,251
Grants . . . . .		108,652				108,652
Other . . . . .	(40,897)		109,788			68,891
Net cash provided (used) by noncapital financing activities . . . . .	(200,837)	108,652	(335,109)	(21,202)	(2,000)	(450,496)
Cash flows from capital and related financing activities:						
Principal paid on notes payable and revenue bonds .				(4,470)		(4,470)
Interest payments . . . . .			(179)	(23,274)		(23,453)
Acquisition of capital assets . . . . .	(48)		(983)	(56,339)	(1,295)	(58,665)
Payment of capital lease obligations . . . . .			(995)			(995)
Other . . . . .				(86,671)		(86,671)
Net cash used in capital and related financing activities . . . . .	(48)		(2,157)	(170,754)	(1,295)	(174,254)
Cash flows from investing activities:						
Purchase of investments . . . . .	(686,844)		(119,169)	(2,196,806)		(3,002,819)
Proceeds from maturity and sale of investments . .	828,670		64,244	2,215,359		3,108,273
Interest on investments . . . . .	36,706	48,149		21,445	2,112	108,412
Payments for investment in direct financing leases .				(161,035)		(161,035)
Proceeds from investment in direct financing leases				40,833		40,833
Transfers out . . . . .					(10,000)	(10,000)
Other . . . . .					24	24
Net cash provided (used) by investing activities .	178,532	48,149	(54,925)	(80,204)	(7,864)	83,688
Net change in cash and cash equivalents . . . .	114,971	(192,191)		(251,519)		(328,739)
Balance - beginning of the year . . . . .	261,071	891,186	1,200	519,199	10	1,672,666
Balance - end of the year . . . . .	\$376,042	\$698,995	\$ 1,200	\$ 267,680	\$ 10	\$1,343,927

	Economic Development Loan Programs	Unemployment Insurance Program	Maryland State Lottery Agency	Maryland Transportation Authority	Other Enterprise Funds	Total
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:						
Operating income (loss) . . . . .	\$ 82,319	\$(341,049)	\$438,682	\$(89,186)	\$ 5,209	\$95,975
Adjustments to reconcile operating income to net cash provided (used) by operating activities:						
Depreciation and amortization . . . . .			1,831	52,403	1,136	55,370
Provision for loan losses . . . . .	54					54
Loss on disposal of property, plant and equipment..	27,656					27,656
Effect of changes in assets and liabilities:						
Other accounts receivable . . . . .	(1,072)	1,549	(1,734)	12,011	1,157	11,911
Intergovernmental receivables . . . . .				19,911		19,911
Due from other funds . . . . .	(121,758)		(1,088)		6,469	(116,377)
Inventories. . . . .				(228)	250	22
Loans and notes receivable . . . . .	192,357				(614)	191,743
Other assets. . . . .	(3,857)		(11)		1,833	(2,035)
Investments-restricted (mortgage backed securities).	(56,981)					(56,981)
Other assets-restricted. . . . .	12,656					12,656
Accounts payable and accrued liabilities . . . . .	4,922	(9,492)	(1,940)	24,282	350	18,122
Due to other funds . . . . .	635		1,743			2,378
Accrued insurance on loan losses . . . . .	87				(3,072)	(2,985)
Other liabilities . . . . .	170		(248)	736	(53)	605
Deferred revenue. . . . .			181	712	(1,506)	(613)
Lottery installment payments . . . . .			(53,016)			(53,016)
Future lottery prize installments . . . . .			7,791			7,791
Accounts payable and accrued liabilities-restricted . .	136					136
Total adjustments . . . . .	55,005	(7,943)	(46,491)	109,827	5,950	116,348
Net cash provided by (used in) operating activities . . .	\$137,324	\$(348,992)	\$392,191	\$ 20,641	\$11,159	\$212,323
Noncash transactions (amounts expressed in thousands):						
Loan Programs - Unrealized loss on investments . . . .	\$ (5,965)					

The accompanying notes to the financial statements are an integral part of these financial statements.

STATE OF MARYLAND

**Statement of Fiduciary Net Assets**

**Fiduciary Funds**

**June 30, 2003**

(Expressed in Thousands)

	Pension and Other Employee Benefits Trust Funds	Investment Trust Fund	Agency Funds
<b>Assets:</b>			
Cash and cash equivalents . . . . .	\$ 2,441,303		\$ 7,618
Investments, at fair value:			
U.S. Treasury and agency obligations . . . . .	930,513	\$904,805	
Repurchase agreements . . . . .		388,469	
Bonds . . . . .	1,831,551		
Corporate equity securities . . . . .	5,912,345		
Commercial paper . . . . .		77,063	
Bankers acceptances . . . . .		37,916	
Mortgage related securities . . . . .	1,519,523		
Mutual funds . . . . .	12,505,311	111,901	
Guaranteed investment contracts . . . . .	420,345		
Real estate . . . . .	771,507		
Annuity contracts . . . . .	303,738		
Investment held by borrowers under securities lent with cash collateral . . . . .	2,224,908		
Total investments . . . . .	26,419,741	1,520,154	
Taxes receivable, net. . . . .			253,489
Accounts receivable from state treasury . . . . .			1,090,972
Other receivables . . . . .	413,911	1,009	1,615
Collateral for lent securities. . . . .	2,291,759		
Total assets . . . . .	31,566,714	1,521,163	1,353,694
<b>Liabilities:</b>			
Accounts payable and accrued liabilities . . . . .	1,003,904	1,649	55,322
Accounts payable to political subdivisions . . . . .			1,298,372
Collateral obligation for lent securities . . . . .	2,291,759		
Total liabilities . . . . .	3,295,663	1,649	1,353,694
<b>Net assets:</b>			
Held in trust for:			
Pension benefits (A schedule of funding progress for each of the plans may be found on pages 91 & 92.) . . . . .	26,797,662		
Deferred compensation benefits . . . . .	1,473,389		
Local Government Investment Pool participants . . . . .		1,519,514	
Total net assets . . . . .	\$28,271,051	\$1,519,514	\$ —

The accompanying notes to the financial statements are an integral part of these financial statements.

STATE OF MARYLAND

**Statement of Changes in Fiduciary Net Assets**

**Fiduciary Funds**

**For the Year Ended June 30, 2003**

(Expressed in Thousands)

	Pension and Other Employee Benefits Trust Funds	Investment Trust Fund
Additions:		
Contributions:		
Employers . . . . .	\$ 261,274	
Members . . . . .	335,230	\$4,204,674
Sponsors . . . . .	380,556	
Total contributions . . . . .	977,060	4,204,674
Investment earnings:		
Net decrease in fair value of investments . . . . .	(79,417)	
Interest . . . . .	476,441	23,176
Dividends . . . . .	245,493	
Real estate operating net earnings . . . . .	31,016	
Net change in annuity reserves . . . . .	3,095	
Total investment earnings . . . . .	676,628	23,176
Less: investment expense . . . . .	72,801	
Net investment earnings . . . . .	603,827	23,176
Total additions . . . . .	1,580,887	4,227,850
Deductions:		
Benefit payments . . . . .	1,601,375	
Distributions to participants . . . . .		23,176
Redemptions (unit transactions at \$1.00 per unit) . . . . .		3,935,538
Refunds . . . . .	16,310	
Administrative expenses . . . . .	26,875	
Total deductions . . . . .	1,644,560	3,958,714
Change in net assets . . . . .	(63,673)	269,136
Net assets - beginning . . . . .	28,253,110	1,250,378
Net effect of accounting change . . . . .	81,614	
Net assets - ending . . . . .	\$28,271,051	\$1,519,514

The accompanying notes to the financial statements are an integral part of these financial statements.





STATE OF MARYLAND  
COMPONENT UNIT FINANCIAL STATEMENTS

**Major Component Units**

**Higher Education**

Higher education consists of the University System of Maryland, Morgan State University, St. Mary's College of Maryland and Baltimore City Community College. Because the universities and colleges are similar in nature and function, they have been combined and presented as a single component unit. The financial information for substantially all foundations affiliated with the universities and colleges has not been included in this fund in accordance with GASB Statement #14.

**Maryland Stadium Authority**

The Maryland Stadium Authority was created as a body corporate and politic and as an independent unit of the Executive Department of the State of Maryland. The Authority's purpose is to acquire land and to construct, operate and/or manage various capital facilities in the State.

**Non-major Component Units**

**Other Component Units**

Non-major component units are presented individually in the combining section following the footnotes.

STATE OF MARYLAND

**Combining Statement of Net Assets**

**Component Units**

**June 30, 2003**

(Expressed in Thousands)

	Higher Education	Stadium Authority	Other Component Units	Total
<b>Assets:</b>				
Cash and cash equivalents . . . . .	\$ 26,843	\$ 266	\$ 7,548	\$ 34,657
Investments . . . . .	17,398		161,896	179,294
Endowment investments . . . . .	172,519			172,519
Inventories . . . . .	11,536			11,536
Prepaid items . . . . .	2,607			2,607
Deferred charges . . . . .	2,493			2,493
Tuition contracts receivable . . . . .	60,308		171,295	231,603
Other accounts receivable . . . . .	116,106	3,891	11,892	131,889
Due from primary government . . . . .	547,803	15,172	39,878	602,853
Loans and notes receivable, net . . . . .	67,382	5,291		72,673
Investments in direct financing leases . . . . .		285,783	10,889	296,672
Other assets . . . . .	403	5,643	11,394	17,440
<b>Restricted assets:</b>				
Cash and cash equivalents . . . . .	12,464	75	150	12,689
Investments . . . . .	43,846	38,047	19,293	101,186
Due from primary government . . . . .			762	762
<b>Capital assets (net of accumulated depreciation):</b>				
Land . . . . .	96,304		5,773	102,077
Structures and improvements . . . . .	2,131,807	234,169	18,174	2,384,150
Equipment . . . . .	251,983	2,376	8,428	262,787
Infrastructure . . . . .	115,486			115,486
Construction in progress . . . . .	453,998		1,851	455,849
<b>Total assets . . . . .</b>	<b>4,131,286</b>	<b>590,713</b>	<b>469,223</b>	<b>5,191,222</b>
<b>Liabilities:</b>				
Salaries payable . . . . .	4,928			4,928
Accounts payable and accrued liabilities . . . . .	221,511	11,212	30,538	263,261
Due to primary government . . . . .		2,400	43	2,443
Loans from primary government . . . . .			400	400
Unearned revenue . . . . .	55,469	14,701	268	70,438
Accrued insurance on loan losses . . . . .			6,177	6,177
Accrued tuition benefits . . . . .			395,449	395,449
Other liabilities . . . . .	3,320	889	9,917	14,126
<b>Bonds and notes payable:</b>				
Due within one year . . . . .	51,094	11,015	3,536	65,645
Due in more than one year . . . . .	917,096	312,221	29,747	1,259,064
<b>Other noncurrent liabilities:</b>				
Due within one year . . . . .	52,200	34		52,234
Due in more than one year . . . . .	107,891	598		108,489
<b>Total liabilities . . . . .</b>	<b>1,413,509</b>	<b>353,070</b>	<b>476,075</b>	<b>2,242,654</b>

	Higher Education	Stadium Authority	Other Component Units	Total
Net Assets:				
Invested in capital assets, net of related debt . . . . .	2,108,011	221,559	23,031	2,352,601
Restricted:				
Debt service . . . . .		669		669
Capital improvements and deposits . . . . .		6,534	912	7,446
Nonexpendable:				
Scholarships and fellowships . . . . .	37,962			37,962
Research . . . . .	48,370			48,370
Other . . . . .	38,377			38,377
Expendable:				
Debt service . . . . .	3,202			3,202
Capital projects . . . . .	4,933			4,933
Loans and notes receivable . . . . .	73,313			73,313
Scholarships and fellowships . . . . .	2,648			2,648
Research . . . . .	48,650			48,650
Unrestricted (deficit) . . . . .	352,311	8,881	(30,795)	330,397
Total net assets . . . . .	\$2,717,777	\$237,643	\$ (6,852)	\$2,948,568

The accompanying notes to the financial statements are an integral part of these financial statements.

STATE OF MARYLAND

**Combining Statement of Activities**

**Component Units**

**For the Year Ended June 30, 2003**

(Expressed in Thousands)

	Higher Education	Stadium Authority	Other Component Units	Total
Expenses:				
General and administrative . . . . .		\$ 5,717	\$ 12,956	\$ 18,673
Operation and maintenance of facilities . . . . .	\$ 202,674	18,674	64,011	285,359
Provision for insurance on loan losses, net . . . . .			2,083	2,083
Instruction . . . . .	880,042			880,042
Research . . . . .	587,203			587,203
Public service . . . . .	159,462			159,462
Academic support . . . . .	248,674			248,674
Student services . . . . .	116,629			116,629
Institutional support . . . . .	294,555			294,555
Scholarships and fellowships . . . . .	62,538			62,538
Tuition benefits . . . . .			130,587	130,587
Auxiliary . . . . .	340,320			340,320
Hospitals . . . . .	46,022			46,022
Interest on long-term debt . . . . .	45,413	19,192	1,724	66,329
Depreciation and amortization . . . . .		10,038	2,581	12,619
Other . . . . .		2,944	1,138	4,082
Total expenses . . . . .	2,983,532	56,565	215,080	3,255,177
Program revenues:				
Charges for services:				
Student tuition and fees (net of \$128,804 in allowances) . . . . .	679,428			679,428
Auxiliary enterprises (net of \$20,005 in allowances) . . . . .	354,260			354,260
Restricted investment earnings . . . . .	4,107	1,536	199	5,842
Other . . . . .	178,394	26,161	162,667	367,222
Total charges for services . . . . .	1,216,189	27,697	162,866	1,406,752
Operating grants and contributions . . . . .	906,374	24,772		931,146
Capital grants and contributions . . . . .	242,328	14,720	1,424	258,472
Total program revenues . . . . .	2,364,891	67,189	164,290	2,596,370
Net program revenue (expense) . . . . .	(618,641)	10,624	(50,790)	(658,807)
General revenues:				
Grants and contributions not restricted to specific programs . . . . .	866,722			866,722
Unrestricted investment earnings . . . . .	17,235	406	11,479	29,120
Total general revenues . . . . .	883,957	406	11,479	895,842
Change in net assets . . . . .	265,316	11,030	(39,311)	237,035
Net assets - beginning . . . . .	2,452,461	226,613	32,459	2,711,533
Net assets - ending . . . . .	\$ 2,717,777	\$ 237,643	\$ (6,852)	\$ 2,948,568

The accompanying notes to the financial statements are an integral part of these financial statements.

STATE OF MARYLAND

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for the year ended June 30, 2003**

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STATE OF MARYLAND  
**Notes to the Financial Statements**  
**for the year ended June 30, 2003**

**1. Summary of Significant Accounting Policies:**

*A. Reporting Entity*

The accompanying financial statements include the various departments, agencies, and other organizational units governed by the General Assembly and/or Constitutional Officers of the State of Maryland (State).

As required by accounting principles generally accepted in the United States of America, these financial statements present the state government (primary government) and its component units (entities for which the State is considered to be financially accountable). The Governmental Accounting Standards Board (GASB) has set forth criteria to be considered in determining financial accountability. These criteria include the State appointing a voting majority of an organization's governing body and (1) the ability of the governing body to impose its will on that organization, or (2) the potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the State.

*Discrete Component Units*

These component units are entities which are legally separate from the State, but are financially accountable to the State, or whose relationships with the State are such that exclusion would cause the State's financial statements to be misleading or incomplete. The Component Units column of the government-wide financial statements includes the financial data of the following major component units. Individual statements are presented for each.

Higher Education (Proprietary Fund Type) – Higher Education consists of the University System of Maryland, Morgan State University, St. Mary's College of Maryland and Baltimore City Community College. Each entity is governed by its own Board of Regents, or Board of Trustees, whose members are appointed by the Governor. The universities and colleges are funded through State appropriations, tuition, federal grants, and private donations and grants. Because the universities and colleges are similar in nature and function, they have been combined and presented as a single discretely presented component unit. Most of the financial information for foundations affiliated with the universities and colleges has not been included with the financial information of the universities and colleges in accordance with the requirements of GASB Statement No. 14.

Maryland Stadium Authority (Proprietary Fund Type) - The Maryland Stadium Authority (Authority) was created as a body corporate and politic and as an independent unit of the Executive Department of the State of Maryland. The Authority's purpose is to acquire land and to construct, operate and/or manage various capital facilities in the State. The Board consists of seven members, of which, six are appointed by the Governor, with the advice and consent of the State Senate, and one whom is appointed by the Mayor of Baltimore City, with the advice and consent of the State Senate. The Maryland State Legislature and the Board of Public Works (consisting of the Governor, Comptroller and the Treasurer) have approved all of the projects and bond issuances of the Authority.

The non-major component units are comprised of the following proprietary fund type entities.

The Maryland Food Center Authority (Authority) is a body corporate and politic, the governing board of which is composed of twelve members. Four members are State officials, and eight members are appointed by the Governor. The Authority was created to establish and operate a consolidated wholesale food center within the Greater Baltimore Region and is subject to State regulations.

The Maryland Environmental Service (Service) was created as a body corporate and politic and is governed by a nine-member Board of Directors. The Board of Directors and the officers of the Service are appointed and/or approved by the Governor. The Service helps private industry and local governments manage liquid, solid and hazardous wastes. In accordance with direction from the Governor, the Service plans and establishes major resource recovery facilities, solid waste management plans and hazardous waste management programs.

The Maryland Industrial Development Financing Authority (Authority) was established as a body corporate and politic and a public instrumentality of the State. The Authority consists of nine members, the Secretary of the Department of Business and Economic Development, or his designee, the State Treasurer or the State Comptroller, as designated by the Governor; and seven members appointed by the Secretary of the Department of Business and Economic Development and approved by the Governor. The Authority provides financial assistance to enterprises seeking to locate or expand operations in Maryland.

The Maryland Prepaid College Trust is directed by the Maryland Higher Education Investment Board. The Board consists of four State officials and five members of the public appointed by the Governor. The Trust provides a method for Maryland citizens to save money for college tuition.

Complete financial statements of the individual component units and the Local Government Investment Pool of the Investment Trust Fund may be requested from the Comptroller of Maryland, LLG Treasury Building, Annapolis, Maryland 21404.



### *Related Organizations*

The Maryland Economic Development Corporation, Injured Workers' Insurance Fund and the Maryland Automobile Insurance Fund are related organizations of the State. The governor appoints a majority of the Board of Directors, but the State does not have the ability to impose its will on the organizations, and there is no financial benefit/burden relationship.

### *B. Government-wide and Fund Financial Statements*

The State's government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all nonfiduciary activities of the primary government and its component units. Interfund activity has been removed from these statements except for certain charges for services between activities that would distort the direct costs and program revenues reported for the applicable functions. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Expenses reported for functional activities include allocated indirect expenses. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

### *C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation*

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurements focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers all revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to retirement costs, compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, franchise taxes, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The State reports the following major governmental funds:

#### *General Fund:*

Transactions related to resources obtained and used for those services traditionally provided by a state government, which are not accounted for in other governmental funds, are accounted for in the general fund. These services include, among other items, general government, health and mental hygiene, education (other than higher education institutions), human resources, public safety, judicial, labor, licensing and regulation, natural resources and recreation, housing and community development, environment, agriculture, and business and economic development. Resources obtained from federal grants and used for activities accounted for in the general fund, consistent with applicable legal requirements, are recorded in the general fund.

#### *Maryland Department of Transportation, Special Revenue Fund:*

Transactions related to resources obtained, the uses of which are restricted for specific purposes, are accounted for in the special revenue fund. The Maryland Department of Transportation special revenue fund accounts for resources used for operations (other than debt service and pension activities) of the Maryland Department of Transportation, including construction or improvement of transportation facilities and mass transit operations.

#### *Enterprise Funds:*

Transactions related to commercial types of activities operated by the State are accounted for in the enterprise funds. The enterprise funds differ from governmental funds in that the focus is on the flow of economic resources, which, together with the maintenance of equity, is an important financial indicator.

The major enterprise funds are as follows.

1. The Economic Development Loan Programs includes the direct loan programs of the Maryland Departments of Housing and Community Development, Business and Economic Development and Environment.
2. The Unemployment Insurance Program reflects the transactions, assets, liabilities and net assets of the Unemployment Insurance Program and is used to account for the unemployment taxes collected from employers, federal revenue received and remittance of benefits to the unemployed.
3. The Maryland State Lottery Agency operates the State Lottery.
4. The Maryland Transportation Authority is responsible for the operation and maintenance of toll roads, bridges and tunnels around the State.

The State reports the following fiduciary funds.

1. The Pension and Other Employee Benefits Trust Fund includes the State Retirement and Pension System of Maryland, the Maryland Transit Administration Pension Plan, and the Deferred Compensation Plan. The Trust Fund reflects the transactions, assets, liabilities and fund equities of the plans administered by the State and the Maryland Transit Administration and is accounted for using the flow of economic resources measurement focus. The Deferred Compensation Plan, which is included with a year end of December 31, accounts for participant earnings deferred in accordance with Internal Revenue Code Sections 457, 403(b), 401(a), and 401(k). Amounts deferred are invested and are not subject to federal income taxes until paid to participants upon termination or retirement from employment, death or for an unforeseeable emergency.
2. The Investment Trust Fund reflects the transactions, assets, liabilities and fund equities of the Maryland Local Government Investment Pool and is accounted for using the flow of economic resources measurement focus.
3. The agency funds are custodial in nature and do not present the results of operations or have a measurement focus. The State uses agency funds to account for the receipt and disbursement of patient and prisoner accounts, various taxes collected by the State for distribution to the Federal government and political subdivisions and amounts withheld from employees' payroll.

#### *D. Change in Accounting Principles/Restatement of Beginning Balances:*

As of July 1, 2002, the State adopted GASB Statement No. 41, *Budgetary Comparison Schedules-Perspective Differences*, an amendment of GASB Statement No. 34. This Statement resulted in the budgetary comparisons for the budgetary general, special and federal funds now being presented as Required Supplementary Information as opposed to a part of the basic financial statements.

The beginning net assets balance for the Retirement and Pension System of Maryland has been restated to conform to the 2003 financial statement presentation for long-term contributions receivable due from certain employers who withdrew from the System. In addition to actuarially determined contributions, they also make annual installment payments, including interest at the actuarially assumed rate of return in effect at the time of withdrawal for liabilities associated with employees that have elected to stay in the System when their employer elected to withdraw. These payments are due over various time periods, based on the date of the employer's withdrawal, and all are scheduled to culminate with their final payment in fiscal year 2020. Accordingly, the beginning net assets were restated from \$26,586,896,000 to \$26,668,510,000.

#### *E. New Pronouncements:*

In May 2002, GASB issued Statement No. 39, *Determining Whether Certain Organizations Are Component Units*. This statement provides additional guidance to determine whether certain organizations for which the primary government is not financially accountable should be reported as component units by the primary government. This pronouncement requires reporting as a component unit, a fundraising organization which exists for the primary benefit of the primary government or its component units. In March, 2003, GASB issued Statement No. 40, *Deposit and Investment Risk Disclosures* – an amendment of GASB Statement No. 3, which addresses common deposit and investment risks. The State is in the process of assessing the impact of these statements and will implement them as of the effective dates.

## 2. Assets, Liabilities and Net Assets or Equity:

### *A. All Funds:*

#### *Deposits with Financial Institutions and Investments:*

Substantially all cash and cash equivalents of the governmental fund types and certain enterprise, fiduciary funds and component units are maintained by the State Treasurer on a pooled basis. The State Treasurer's Office invests short-term cash balances on a daily basis primarily in repurchase agreements, U.S. Government obligations and money market mutual funds. Under the State Finance and Procurement Article of the Annotated Code of Maryland, Title 6, Subtitle 2, the State Treasurer may only invest in the following:

- Any obligation for which the United States Government has pledged its faith and credit for the payment of principal and interest.
- Any obligation that a United States agency issues in accordance with an act of Congress.
- Repurchase agreements that any of the above obligations secure.
- Certificates of deposits of Maryland financial institutions.
- Banker's acceptances.
- Money market mutual funds.
- Commercial paper.
- Maryland Local Government Investment Pool.

In addition, bond sale proceeds may be invested in Municipal securities. A significant portion of the investments maintained by the State Treasurer consists of repurchase agreements. Collateral must be at least 102% of the book value of the repurchase agreements and must be delivered to the State Treasurer's custodian for safekeeping.

Investments are recorded at fair value and changes in fair value are recognized as revenue. Fair values are based on quotations from national security exchanges and security pricing services, or by the respective fund managers for securities which are not actively traded. Investments maturing within 90 days of purchase are reported in the financial statements as cash and cash equivalents. Changes in the carrying value of investments of the State Lottery Agency accrue to the benefit of the unpaid prize winners. Consequently, these investments are presented at contract/face value.

#### *Retirement Costs:*

Substantially all State employees participate in one of several State retirement systems. (See Note 16.) The State also provides retirement benefits to teachers and certain other employees of its political subdivisions. Retirement costs have been provided on the accrual basis, based upon actuarial valuations except that retirement expenditures for governmental funds represent amounts contributed by the State for the fiscal year.

#### *Accrued Self-Insurance Costs:*

The accrued self-insurance costs represent the State's liability for its various self-insurance programs. The State is self-insured for general liability, property and casualty, workers' compensation, environmental and anti-trust liabilities and certain employee health benefits. The State records self-insurance expenses in the proprietary funds and discretely presented component units on an accrual basis and the modified accrual basis for the governmental funds. The long-term accrued self-insurance costs of the governmental funds, which are not expected to be funded with current resources, are reported in the government-wide financial statements.

#### *Annual Leave Costs:*

Principally all full-time employees accrue annual leave based on the number of years employed up to a maximum of 25 days per calendar year. Earned annual leave may be accumulated up to a maximum of 50 days as of the end of each calendar year. Accumulated earned but unused annual leave for general government employees is accounted for in the government-wide financial statements. Liabilities for accumulated earned but unused annual leave applicable to proprietary funds and component units are reported in the respective funds.

#### *Capital Assets:*

Capital assets, which include property, plant, art and historical treasures, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$50,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed.

Capital assets of the primary government, as well as the component units, are depreciated using the straight line method over the following estimated useful lives:

Assets	Years
Buildings . . . . .	5-50
Building improvements . . . . .	5-50
Vehicles . . . . .	3-25
Office equipment . . . . .	3-10
Computer equipment . . . . .	3-10
Computer software . . . . .	5-10
Infrastructure . . . . .	10-50

*Long-term Obligations:*

In the government-wide financial statements, and for proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

*Restricted Resources:*

When both restricted and unrestricted resources are available for use, it is the State's policy to use restricted resources first, and then unrestricted resources as they are needed.

*Debt Refinancing:*

The gain or loss associated with debt refinanced is deferred and amortized to interest expense over the life of the debt.

*Net Assets:*

Net assets are divided into three categories. Net assets invested in capital assets net of related debt is the capital assets less accumulated depreciation and outstanding principal of the related debt. Restricted net assets reflect restrictions on assets imposed by parties outside the State. Unrestricted net assets are total net assets of the State less net assets invested in capital assets net of related debt and restricted net assets. Unrestricted net assets are comprised mainly of cash, investments, loans, and receivables.

*B. Governmental Funds:*

*Inventories and Prepaid Items:*

All inventories are valued at cost using the first-in/first-out (FIFO) method. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in the fund financial statements under the consumption method.

*Grants:*

Revenues from federal reimbursement type grants are recognized when the related expenditures are incurred and the revenues are both measurable and available. The government considers all revenues to be available if they are collected within 60 days of the current fiscal period. Distributions of food stamp benefits are recognized as revenues and expenditures when the benefits are distributed to individual recipients.

*Income Taxes:*

The State accrues the net income tax receivable or records a deferred revenue based on estimated income tax revenues and refunds due relating to the fiscal year, that will not be collected or paid until after the fiscal year end. This accrual is computed based on projected calendar year net tax collections, tax laws in effect, future projections and historical experience.

#### *Sales and Use Taxes:*

The State accrues June sales taxes that are not remitted at year end as a receivable. These taxes are considered measurable and available since they represent June collections that are remitted to the State in July by merchants who collect the related sales tax.

#### *Property Taxes:*

The State levies an annual tax for the fiscal year beginning July 1 and ending June 30 on all real and personal property subject to taxation, due and payable each July 1 (lien date), based on assessed values as of the previous January 1, established by the State Department of Assessments and Taxation at various rates of estimated market value. Each of the counties, Baltimore City and incorporated municipalities establish rates and levy their own tax on such assessed values. The State tax rate since 1982 has been maintained at 21¢ per \$100 of assessed value. Unpaid property taxes are considered in arrears on October 1, and penalty and interest of 1% is assessed for each month or fraction of a month that the taxes remain unpaid. Current collections are 99.3% of the total tax levy for the fiscal year. Property taxes are accrued to the extent they are collected within 60 days of year end.

#### *Escheat Property:*

Escheat property is property that reverts to the State's general fund in the absence of legal claimants or heirs. The escheat activity is reported in the general fund. The asset is recognized in the period when the legal claim to the assets arises or when the resources are received, whichever occurs first, and a liability is recognized for the estimated amount that ultimately will be reclaimed and paid.

#### *Intergovernmental Expenditures:*

General, special revenue and capital projects fund revenues paid to political subdivisions, and bond proceeds granted to political subdivisions and other public organizations, are recorded as intergovernmental expenditures. Direct grants and other payments to, or on behalf of, political subdivisions are recorded as current expenditures.

#### *Capital Assets:*

Expenditures for capital assets are reported as capital outlays in the governmental funds.

#### *Compensated Absences:*

It is the State's policy to permit employees to accumulate earned but unused vacation and sick pay benefits. There is no liability for unpaid accumulated sick leave since the State does not have a policy to pay any amounts when employees separate from service with the government. A liability for vacation pay amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements.

#### *Fund Equity:*

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

### *C. Enterprise Funds, Fiduciary Funds and Component Units:*

#### *Basis of Accounting:*

The accounts of the enterprise funds, fiduciary funds, and component units are maintained and reported using the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred. For both the government-wide and the proprietary fund financial statements, the State has selected the option to apply all applicable GASB pronouncements and only FASB Statements and Interpretations, Accounting Principles Board (APB) Opinions and Accounting Research Bulletins (ARB) issued on or before November 30, 1989.

Enterprise funds and component units distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. Operating expenses include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

#### *Cash and Cash Equivalents:*

The enterprise funds consider all highly liquid investments that mature within 90 days of purchase to be cash and cash equivalents for reporting on the statement of cash flows.

#### *Grants:*

Revenues from federal reimbursement type grants are recorded when the related expenses are incurred.



#### *Capital Assets:*

Capital assets are stated at cost. Depreciation of the cost of capital assets is provided on the straight-line basis over estimated useful lives of 25 to 50 years for depreciable real property, 5 to 10 years for building improvements, and 3 to 10 years for equipment. Construction period interest is capitalized. Repairs and maintenance are charged to operations in the period incurred. Replacements, additions and betterments are capitalized.

#### *Lottery Revenues, Prizes and Related Transfers:*

Revenues and prizes of the Maryland State Lottery Agency (Lottery) are primarily recognized when drawings are held. Certain prizes are payable in deferred installments. Such liabilities are recorded at the present value of amounts payable in the future. State law requires the Lottery to transfer to the State revenues in excess of amounts allocated to prize awards, operating expenses and capital expenditures. The excess revenues from certain select games are transferred to the State's general fund, which then transfers the amounts to the Maryland Stadium Authority for operations and to cover the State's capital lease payments to the Maryland Stadium Authority.

#### *Provisions for Insurance and Loan Losses:*

Current provisions are made for estimated losses resulting from insuring loans and uncollectible loans. Loss provisions are based on the current status of insured and direct loans, including delinquencies, economic conditions, loss experience, estimated value of collateral and other factors which may affect their realization.

#### *Inventories:*

Inventories are stated at the lower of cost or market, using the first-in, first-out method.

### **3. Deposits with Financial Institutions and the U.S. Treasury and Investments:**

Cash and cash equivalents for the governmental funds, enterprise funds, fiduciary funds and component units totaled \$2,522,264,000, \$1,343,927,000, \$2,448,921,000, and \$47,346,000 respectively, as of June 30, 2003. Included as cash and cash equivalents for financial statement presentation were certain short term investments which are included in Note 3B and categorized as to custodial credit risk or included in Note 3B and not categorized as to credit risk because they do not exist in physical or book entry form. These cash and cash equivalents totaled \$2,522,264,000, \$642,537,000, \$2,338,995,000, and \$35,604,000 for the governmental funds, enterprise funds, fiduciary funds, and component units, respectively, as of June 30, 2003.

As of June 30, 2003, non-negotiable certificates of deposits totaling \$9,353,000 and \$3,000,000 were included in the investments of the governmental and enterprise funds, respectively. These investments were entirely insured by Federal depository insurance or collateralized by securities held by the State's agent in the State's name.

#### *A. Cash Deposits*

Cash deposits are categorized to give an indication of the level of custodial credit risk assumed by the State. Category 1 includes deposits insured or collateralized with securities held by the State or its agent in the State's name. Category 2 includes deposits collateralized with securities held by the pledging financial institution's trust department or agent in the State's name. Category 3 includes deposits which are uncollateralized.

As of June 30, 2003, both the carrying value and the bank balance for the bank deposits of the governmental funds totaled \$9,353,000. This amount was insured by Federal depository insurance or collateralized by securities held by the State's agent in the State's name and is a Category 1 asset.

As of June 30, 2003, the book balance for the bank deposits for the enterprise funds of the primary government was \$704,390,000 and the bank balance was \$719,195,000. Of this amount \$6,044,000 was insured by Federal depository insurance or collateralized by securities held by the State's agent in the State's name and is a Category 1 asset and \$440,000 collateralized with securities held by the pledging financial institution's trust department in the agency's name, is Category 2. Of the remaining amount, \$450,000 was uninsured and uncollateralized and is a Category 3 asset, and \$712,261,000 was on deposit with the U.S. Treasury and is not categorized as to custodial credit risk in accordance with GASB Statement No. 3.

As of June 30, 2003, both the carrying value and the bank deposits for the fiduciary funds totaled \$109,926,000. Of that amount \$6,070,000 was pooled by the State and is comprised of Category 1 assets. The remaining bank balance of \$103,856,000 was uninsured and uncollateralized and is a Category 3 asset.

As of June 30, 2003, the carrying value of bank deposits for the component units totaled \$11,742,000. The associated bank balance of cash deposited with financial institutions for the component units was \$10,697,000 of which \$9,799,000 is a Category 1 asset and is insured by Federal, private or foreign national government depository insurance, or was collateralized by a pledge of U.S. Treasury obligations held by the component unit's agent in the component unit's name. The remaining \$898,000 is categorized as risk Category 3.

#### *B. Investments*

The State's investments are classified as to custodial credit risk by the three categories described below.

Category 1 Insured or registered, or securities held by the State or its agent in the State's name.

Category 2 Uninsured and unregistered, with securities held by the counterparty's trust department or agent in the State's name.

Category 3 Uninsured and unregistered, with securities held by the counterparty, or by its trust department or agent, but not in the State's name.

All of the State's investments held at year-end are subject to classification of custodial credit risk except for those investments, that do not exist in physical or book entry form, which by their nature are not subject to risk categorization. The State's pooled investments that are not subject to risk categorization include the Maryland Local Government Investment Pool, annuity contracts, guaranteed investment contracts, mutual funds, real estate, and investments held by borrowers for lent securities collateralized with cash.

#### *1. Investments-Governmental Funds:*

Investments are stated at fair value that is based on quoted market prices. The investments as of June 30, 2003, for the governmental funds of the primary government are categorized as follows (amounts expressed in thousands).

	Category			Fair Value
	1	2	3	
U. S. Treasury and agency obligations . . . . .	\$ 602,196			\$ 602,196
Repurchase agreements . . . . .	2,332,895			2,332,895
	<u>\$2,935,091</u>			2,935,091
Items not subject to classification:				
Money market mutual funds . . . . .				265,305
Local Government Investment Pool. . . . .				154,659
Total . . . . .				<u>\$3,355,055</u>

As of June 30, 2003, cash in the amount of \$4,882,000 was maintained with fiscal agents and is included above. Of this amount, \$3,970,000 represents resources transmitted to bond paying agents for which coupons have not been presented. This cash was invested in mutual funds that invest only in U.S. Treasury and agency obligations and, therefore, is not categorized. The remainder, \$912,000, represents sinking fund deposits made to redeem the 2002 Qualified Zone Academy Bonds due in 2016. This cash was used to purchase repurchase agreements which are collateralized with U.S. Treasury Obligations and guaranteed U.S. agency instruments and is classified as a Category 1 investment.

The Maryland Local Government Investment Pool is operated in accordance with Rule 2 a-7 of the Investment Company Act of 1940, as amended. As of June 30, 2003, the net asset value, offering and redemption price per share was \$1.00. The fair value of the State of Maryland's investment in the pool is equal to the fair value of its shares in the pool.

#### *2. Investments-Enterprise Funds:*

Investments of the enterprise funds are stated at fair value, which is based on quoted market prices and, for the Lottery, contract/face value. The investment policies for all enterprise funds, with the exception of the Community Development Administration, are the same as those of the State Treasurer. The Community Development Administration, an agency of the Department of Housing and Community Development, is authorized to invest in obligations of the U.S. Treasury, U.S. Government agencies and corporations, political subdivisions of the U.S., banker's acceptances, repurchase agreements, corporate debt securities and certificates of deposit with foreign or domestic banks. The U.S. Treasury and agency obligations and collateral for the repurchase agreements are held by the enterprise fund's agent in the enterprise fund's name.

The investments as of June 30, 2003, for the enterprise funds of the primary government are as follows (amounts expressed in thousands).

	Category			Fair Value
	1	2	3	
U. S. Treasury and agency obligations . . . . .	\$1,297,398			\$1,297,398
Repurchase agreements . . . . .	228,722			228,722
Bankers acceptances . . . . .	18,983			18,983
Corporate equity securities . . . . .	151			151
	<u>\$1,545,254</u>			<u>1,545,254</u>
Items not subject to classification:				
Money market mutual funds . . . . .				597,702
Annuity contracts . . . . .				1,250
Guaranteed investment contracts . . . . .				17,792
Direct equity investments . . . . .				21,202
Investments held by borrowers under securities lent with cash collateral . . . .				75,809
Total . . . . .				<u>\$2,259,009</u>

### 3. Investments-Fiduciary Funds:

The Pension Trust Funds (Funds), in accordance with State Personnel and Pensions Article Section 21-123 of the Annotated Code of Maryland, are permitted to make investments subject to the terms, conditions, limitations, and restrictions imposed by the Board of Trustees of the State Retirement and Pension Systems of Maryland and the Board of Trustees of the State's Supplemental Retirement Plans. The law further provides that no more than 25% of the assets that are invested in common stocks may be invested in nondividend paying common stocks. In addition, no investment in any one organization may constitute more than 5% of the total assets of the Funds.

Investments of the State Retirement and Pension Systems are stated at fair value. Fair value of the investments is determined by the State Retirement and Pension System of Maryland based on published securities data, quotations from national security exchanges and security pricing services, or by respective fund managers for securities which are not actively traded. Other investments are valued based on appraisals or the present value of the projected future income.

State employees are offered participation in a deferred compensation plan (Plan) created in accordance with the Internal Revenue Code, Sections 401(a), 401(k), 403(b) and 457. The Board of Trustees of the State's Supplemental Retirement Systems is responsible for the implementation, maintenance and administration of the Plan. The Board has appointed a private company as the Plan administrator. Assets of the Plan are held in trusts for the exclusive benefit of participating employees and their beneficiaries. Investments of the Plan are stated at fair value. Fair value of the investments are valued at cost plus interest credited for fixed earnings investment contract pools and at fair value based on published quotations at each December 31, or net asset value as provided by the investment carrier, for variable earnings investments.

The Maryland Local Government Investment Pool may invest in any instrument in which the State Treasurer may invest. Permissible instruments are established under the State Finance and Procurement Article of the Annotated Code of Maryland, Title 6, Subtitle 2. Investments of the plan are stated at fair value. Securities are valued daily on an amortized cost basis which approximates market value. Money market funds are valued at the closing net asset value per share on the day of valuation.



The investments as of June 30, 2003, for the fiduciary funds of the primary government are as follows (amounts expressed in thousands).

	Category			Fair Value
	1	2	3	
U.S. Treasury and agency obligations . . . . .	\$ 1,835,318			\$ 1,835,318
Repurchase agreements . . . . .	388,520			388,520
Bonds . . . . .	1,831,551			1,831,551
Corporate equity securities . . . . .	5,912,345			5,912,345
Commercial paper . . . . .	420,070			420,070
Bankers acceptances . . . . .	37,916			37,916
Mortgage backed securities . . . . .	1,519,523			1,519,523
	<u>\$11,945,243</u>			<u>11,945,243</u>
Items not subject to classification:				
Guaranteed investment contracts . . . . .				420,345
Insurance contracts . . . . .				4,059
Annuity contracts . . . . .				303,738
Mutual funds . . . . .				12,617,212
Real estate . . . . .				771,507
Global pooled with short term investments . . . . .				1,991,878
Investments held by borrowers under securities lent with cash collateral:				
U.S. Treasury and agency obligations . . . . .				1,509,444
Bonds . . . . .				10,384
Corporate equity securities . . . . .				705,080
Collateral for loaned securities . . . . .				<u>2,291,759</u>
Total . . . . .				<u>\$32,570,649</u>

The Funds may invest in derivatives as permitted by guidelines established by the Board of Trustees of the State Retirement and Pension Systems of Maryland. Compliance with these guidelines is monitored by the Fund's staff. At times, the Funds invest in foreign currency forward contracts, options, futures, collateralized mortgage obligations, mortgage-backed securities, interest-only securities and principal-only securities. No derivatives were purchased with borrowed funds.

Derivatives are used to hedge against foreign currency risk, improve yield, adjust the duration of the fixed income portfolio, or hedge against changes in interest rates. These securities are subject to changes in value due to changes in interest rates or currency valuations. The mortgage-backed securities are subject to prepayment risk when interest rates are falling. Credit risk for derivatives is the risk that the counterparty will be unable to meet its obligations. Substantially all derivatives are recorded at fair value in the Statement of Net Assets.

The Funds invest in foreign currency forward contracts to hedge the currency risk in their international and global portfolios. These contracts are reported at fair value based on published market prices and quotations from major investment firms. The Funds could be exposed to risk if the counterparties to the contracts are unable to meet the terms of the contracts. The Funds seek to minimize risk from counterparties by establishing minimum credit quality standards.

#### 4. Investments-Component Units:

Investment accounts established by higher education institutions relate principally to endowments and trust accounts required by debt instruments. In general, endowment resources can be invested in debt and equity securities, and trust accounts can be invested only in debt securities. These investments include U.S. Treasury and agency obligations, corporate debt and equity securities, asset-backed securities and mutual funds that invest in government securities.

The Maryland Stadium Authority's marketable securities are held by the Bond Trustee. Proceeds to purchase these marketable securities were derived from various bond issues, and any proceeds from the sale of these marketable securities are restricted to the purpose of the original bond issue.

Investments of the higher education institutions and the Maryland Stadium Authority are stated at fair value, which is based on quoted market prices.

The investments as of June 30, 2003, for the discretely presented component units are as follows (amounts expressed in thousands).

	Category			Fair Value
	1	2	3	
U.S. Treasury and agency obligations . . . . .	\$ 15,024	\$ 459		\$ 15,483
Repurchase agreements . . . . .			\$6,542	6,542
Corporate debt securities . . . . .	126,845	511		127,356
Corporate equity securities . . . . .	19,967	1		19,968
Asset-backed securities . . . . .	11,872	3,761		15,633
Foreign government securities . . . . .		44		44
	<u>\$173,708</u>	<u>\$ 4,776</u>	<u>\$6,542</u>	<u>185,026</u>
Items not subject to classification:				
Mutual funds . . . . .				303,577
Total . . . . .				<u>\$488,603</u>

The higher education institutions invest a portion of their funds in asset-backed securities, which are derivatives. Derivatives are used to hedge against foreign currency risk, improved yield, adjust the duration of the fixed income portfolio, or hedge against changes in interest rates. These securities are subject to changes in value due to changes in interest rates or currency valuations. These securities are subject to prepayment risk when interest rates are falling.

### C. Securities Lending Transactions:

#### 1. Governmental and Enterprise Fund Types:

Under Section 2-603 of the State's Finance and Procurement Article, the State lends U.S. Government securities to broker-dealers and other entities (borrowers). The State Treasurer's Office controls the program and authorizes all transactions. These transactions may involve certain investments held in the State treasury for the benefit of State agencies. The State's custodial bank manages the securities lending program by contracting with a lending agent who receives cash as collateral. The lending agent may use or invest cash collateral in accordance with the reinvestment guidelines approved by the State Treasurer's Office. The collateral will be returned for the same securities in the future. Cash collateral is initially pledged at greater than the market value of the securities lent and additional cash collateral has to be provided by the next business day if the aggregate value of the collateral falls to less than 100 percent of the market value of the securities lent.

Securities on loan at year-end are owned by the Maryland State Lottery Agency and are reported as assets on the Statement of Net Assets and presented as unclassified in the preceding Investments-Enterprise Funds schedule of custodial credit risk in Note 3B.2. At year-end, the State has no credit risk exposure to borrowers because the amounts the State owes the borrowers exceed the amounts the borrowers owe the State. As of June 30, 2003, the fair value of the loaned securities and the related collateral were as follows (amounts expressed in thousands).

	Fair Value		
	Lent Securities	Collateral Received	Percent Collateralized
Enterprise Fund Types – Lottery:			
Securities-US Treasury Obligations . . . . .	\$75,809	\$75,935	100.2%

Either the State or the borrower may terminate the lending agreements on demand. Lending agreements are usually short in duration. The duration of lending agreements is matched with the term to maturity of the investment of the cash collateral by investing only in repurchase agreements. Such matching existed at year-end. Investments made with cash received as collateral are reported as Governmental Activities assets on the Statement of Net Assets and are included in the preceding Investments-Governmental Funds schedule in Note 3B.1.

The bank is obligated to indemnify the State against liability for any suits, actions, or claims of any character arising from or relating to the performance of the bank under the contract, except for liability caused by acts or omissions of the State.

The State did not experience any losses on their securities lending transactions for the year ended June 30, 2003.

#### 2. Fiduciary Funds:

The Pension Trust Funds (Funds) participate in a securities lending program as permitted by the investment policies as approved by the Board of Trustees. The Funds' custodian lends specified securities to independent brokers in return for collateral of greater value. All lent securities are reported as assets on the Statement of Fiduciary Net Assets. Securities on loan at year-end for cash collateral are presented as unclassified in the preceding investments – fiduciary funds schedule of custodial credit risk. Securities on loan at year-end for collateral other than cash are classified according to the custodial credit risk category applicable to the collateral received.

Borrowing brokers must transfer in the form of cash, other securities or letters of credit, collateral valued at a minimum of 102% of the fair value of domestic securities and international fixed income securities, or 105% of the fair value of international equity securities on loan. Collateral is marked to market daily. If the fair value of the pledged collateral falls below the specified levels, additional collateral is required to be pledged by the close of the next business day. In the event of default by a borrowing broker, the Funds' custodial bank is obligated to indemnify the Funds if, and to the extent that, the fair value of collateral is insufficient to replace the lent securities. The Funds have not experienced any loss due to credit or market risk on securities lending activity since inception of the program. As of June 30, 2003, the Funds had no credit risk exposure to borrowers because the fair value of collateral held for securities lent exceeded the fair value of the related securities, as follows (amounts expressed in thousands).

	Fair Value		Percent Collateralized
	Lent Securities	Collateral Received	
Securities			
International equity securities . . . . .	\$ 554,774	\$ 584,141	105.3%
Fixed and domestic equity securities . . . . .	1,883,951	1,928,101	102.3%
Total . . . . .	<u>\$2,438,725</u>	<u>\$2,512,242</u>	

Although the average term of the Funds' security loans is one week, each loan can be terminated at will by either the Funds or the borrower. Cash collateral is invested in one of the lending agent's short-term investment pools, which at June 30, 2003, had an interest rate sensitivity duration of 64 days. Because the relationship between the maturities of the investment pools and the Fund's security loans is affected by the maturities of the loans made by other entities that use the agent's pools, the Funds cannot match maturities. The Funds cannot pledge or sell collateral securities received unless and until a borrower defaults. Investments made with cash received as collateral and the corresponding liabilities are reported in the Statement of Fiduciary Net Assets, Pension and Other Employee Benefits Trust Funds.

#### 4. Receivables:

Taxes receivable, as of June 30, 2003, consist of the following (amounts expressed in thousands).

	Major Governmental Funds		Non-Major Governmental Funds
	General	Special Revenue	
Income taxes . . . . .	\$432,054		
Sales and use taxes . . . . .	282,325		
Transportation taxes, principally motor vehicle fuel and excise . . . . .		\$84,509	
Other taxes, principally alcohol and property . . . . .	22,155		\$6,799
Less: allowance for uncollectibles . . . . .	(14,809)		
Taxes receivable, net . . . . .	<u>\$721,725</u>	<u>\$84,509</u>	<u>\$6,799</u>

Tax revenues are reported net of uncollectible amounts. Total uncollectible amounts related to tax revenues of the current period are \$4,901,000.

Other accounts receivable in the governmental funds of \$220,388,000, including \$28,644,000 due in excess of one year, consists of various miscellaneous receivables for transportation costs, collection of bills owed to the State's collection unit, reimbursement and rebates for health and mental hygiene facilities, and public assistance and food stamp overpayments and surcharges.

Other accounts receivable for the enterprise funds of \$144,697,000, primarily consist of \$90,428,000 due to the Maryland Unemployment Trust Fund from employers and for benefit overpayments, and \$24,535,000, due to the Maryland Lottery Agency for lottery ticket sale proceeds.

Other accounts receivable in the agency funds of \$1,090,972,000 represents cash pooled in the State treasury that is being held pending distribution to local governments.

## 5. Deferred Revenue:

Governmental funds report deferred revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds, enterprise funds, and component units also defer revenue recognition in connection with resources that have been received, but not yet earned.

At the end of the current fiscal year, the various components of deferred revenue reported in the governmental funds and enterprise funds were as follows (amounts expressed in thousands).

	Unavailable	Unearned
Tax receivables for revenues not considered available to liquidate liabilities of the current period (general fund) . . . . .	\$ 79,313	
Other receivables for revenues not considered available to liquidate liabilities of the current period (general fund) . . . . .	46,120	
Other receivables for revenues not considered available to liquidate liabilities of the current period (other governmental funds) . . . . .	156	
Income tax and other receipts that have been received, but not earned (general fund) . . . . .		\$30,712
Revenue in connection with resources that have been received, but not earned (special revenue fund) . . . . .		11,015
Revenue in connection with resources that have been received, but not earned (enterprise funds) . . . . .		8,991
Total deferred/unearned revenue for governmental funds and enterprise funds . . . . .	\$125,589	\$50,718

## 6. Loans and Notes Receivable and Investment in Direct Financing Leases:

### A. Loans and Notes Receivable:

Loans and notes receivable, as of June 30, 2003, consist of the following (amounts expressed in thousands).

	Primary Government				Component Units	
	General	Special Revenue Department of Transportation	Non-major Governmental Funds	Enterprise	Higher Education	Stadium Authority
Notes receivable:						
Political subdivisions -						
Water quality projects . . . . .			\$ 5,723	\$ 449,104		
Construction . . . . .		\$9,545	287			
Other . . . . .			54			
Hospitals and nursing homes . . . . .			7,415			
Permanent mortgage loans . . . . .				2,306,046		
Student and health profession loans . . . . .					\$71,697	
Shore erosion loans . . . . .			8,828			
Other . . . . .	\$2,118				5,732	\$5,291
Total . . . . .	2,118	9,545	22,307	2,755,150	77,429	5,291
Less: Allowance for possible loan losses . . . . .				172,229	10,047	
Loans and notes receivable, net . . . . .	2,118	9,545	22,307	2,582,921	67,382	5,291
Due within one year . . . . .	382	1,076	3,949	90,460	15,901	332
Due in more than one year . . . . .	\$1,736	\$8,469	\$18,358	\$2,492,461	\$51,481	\$4,959

Certain notes receivable for advances of general obligation bond proceeds bear interest at rates ranging from 4.0% to 9.2% and mature over approximately 25 years.

Water quality project loans consist of loans to various local governments and other governmental entities in the State for wastewater projects under the United States Environmental Protection Agency's (EPA) Capitalization Grants for State Revolving Funds' federal assistance program. The permanent mortgage loans consist of financing for single and multi-family projects, rental projects, small businesses, industrial sites and various other purposes. Student and health profession loans are made pursuant to student loan programs funded through the U.S. Government.

*B. Investment in Direct Financing Leases:*

*Enterprise Funds:*

As of June 30, 2003, the Maryland Transportation Authority (Authority) has direct financing leases with the State's Department of Transportation. The present value of the direct financing leases as of June 30, 2003, is \$272,857,000. As of June 30, 2003, the Authority held \$126,746,000 to be spent to complete assets under these direct financing leases. Lease payments receivable (including unearned interest) for each of the five succeeding fiscal years and thereafter, including repayment of amounts to be spent, consist of the following (expressed in thousands).

2004 .....	\$ 22,966
2005 .....	28,273
2006 .....	29,665
2007 .....	31,049
2008 .....	31,415
2009-2013 .....	157,189
2014 -2018 .....	154,764
2019 -2023 .....	142,897
2024 -2028 .....	117,896
2029-2032 .....	44,108
Total .....	760,222
Less: Unearned interest income .....	360,619
Net lease payments .....	399,603
Restricted investments related to unexpended bond proceeds .....	126,746
Net investments in direct financing leases .....	\$ 272,857

*Component Units:*

As of June 30, 2003, the Maryland Stadium Authority (Authority) has direct financing leases with the State. The present value of the direct financing leases as of June 30, 2003, is \$285,783,000. As of June 30, 2003, the Authority held \$37,457,000 to be spent to complete assets under these direct financing leases. Lease payments receivable (including unearned interest) for each of the five succeeding fiscal years and thereafter, including repayment of amounts to be spent, consist of the following (expressed in thousands).

2004 .....	\$ 30,395
2005 .....	30,267
2006 .....	31,115
2007 .....	31,103
2008 .....	31,242
2009-2013 .....	153,942
2014 -2018 .....	133,008
2019 -2023 .....	76,029
2024 -2027 .....	21,046
Total .....	538,147
Less: Unearned interest income .....	214,907
Net lease payments .....	323,240
Restricted investments related to unexpended bond proceeds .....	37,457
Net investments in direct financing leases .....	\$285,783

## 7. Restricted Assets:

Certain assets of the governmental activities, business-type activities and component units are classified as restricted assets on the Statement of Net Assets. The purpose and amount of restricted assets as of June 30, 2003, were as follows (amounts expressed in thousands).

Amount	Purpose
<b>Governmental Activities:</b>	
\$ 35,337	Represents money restricted for completion of transportation construction projects maintained in a trust account per Certificates of Participation agreements.
2,544	Represents cash and cash equivalents restricted for debt service payments according to bond agreements.
3,970	Represents funds transmitted to bond paying agents and restricted for payments for coupons and bonds that have not been presented.
912	Represents sinking fund deposits restricted for redemption of term bonds.
8,828	Shore Erosion Control Program loans, the repayments of which are restricted by statute for future loans.
<b>Business-type Activities:</b>	
\$ 3,004,162	Assets of the Community Development Administration and the State Funded Loan Programs are restricted for various mortgage loans for low-income housing and local governments' public facilities.
185,822	The purpose of the restricted assets is to secure the loans and revenue bonds of the Maryland Water Quality Administration made for waste-water treatment systems, drinking systems and secured deposits.
300	Cash of various other economic development loan programs restricted by agreements with third parties.
697,299	Restricted assets represent deposits with the U.S. Treasury to pay unemployment compensation benefits in accordance with federal statute.
386,260	This cash is held in separate annuity contracts and coupon bonds in the Maryland State Lottery Agency for winning lottery ticket payouts.
241,126	Cash and investments have been restricted in accordance with revenue bond debt covenants of the Maryland Transportation Authority for completion of capital projects, facility operations, and debt service.
<b>Component Units:</b>	
\$ 56,310	Restricted assets of higher education include funds held by trustees for future construction projects and cash restricted for endowment purposes.
38,122	Restricted assets of Maryland Stadium Authority include cash and cash equivalents and investments that relate to revenue bond indentures.
19,293	Restricted assets include cash and cash equivalents and investments that relate to revenue bond indentures and to restricted project advances for the provision of water supply and waste-water treatment by the Maryland Environmental Service.
912	Assets of various other component units restricted by agreements with tenants or with third parties.

## 8. Interfund Receivables and Payables:

Interfund balances, as of June 30, 2003, consist of the following (amount expressed in thousands).

Receivable Fund	Payable Fund	Amount
General Fund	Special Revenue Fund	\$ 18,680 (a)
	Enterprise Funds	
	Economic Development Loan Programs	1,464 (b)
	Maryland State Lottery Agency	77,891 (a)
		<u>\$ 98,035</u>
Special Revenue Fund	General Fund	<u>\$ 204,540</u>
Non-major Governmental Funds	General Fund	<u>\$ 332,982</u>
<b>Enterprise Funds -</b>		
Economic Development Loan Programs	General Fund	\$ 274,424
Maryland State Lottery Agency	General Fund	92,089
Maryland Transportation Authority	Special Revenue Fund	10,420 (c)
Non-major Enterprise Funds	General Fund	110,339
		<u>\$ 487,272</u>

The receivable and payable transactions between the Primary Government and Component Units, as of June 30, 2003, consist of the following (amounts expressed in thousands).

Receivable Fund	Payable Fund	Amount
General Fund	Component Units -	
	Maryland Stadium Authority	\$ 2,400 (a)
	Non-major Component Units	43 (b)
		<u>\$ 2,443</u>
Components Units -		
Higher Education Fund		
	General Fund	\$547,803
Maryland Stadium Authority	General Fund	15,172
Non-major Component Units	General Fund	40,640
		<u>\$603,615</u>

(a) The amounts represent monies collected by the special revenue fund, the Maryland State Lottery and the Maryland Stadium Authority in June, 2003, and paid to the general fund in July, 2003.

(b) The amounts represent short term advances from the general fund, which should not be occurring in the future.

(c) The Maryland Transportation Authority lent funds to the Special Revenue Fund for a construction project at the Seagirt Marine Terminal. The balance outstanding at June 30, 2003 was \$10,420,000. Payments will continue for 33 years after completion of the project.

All remaining amounts which are due from the general fund represent pooled cash belonging to the other funds on deposit with the State Treasurer.

All interfund balances except for (c), above, are expected to be repaid by June 30, 2004.

## 9. Interfund Transfers:

Interfund transfers, as of June 30, 2003, consist of the following (amounts expressed in thousands).

Transfers In	Transfers Out	Amount
General Fund	Special Revenue Fund	\$235,310
	Non-major Governmental Funds	24,457
	Enterprise Funds -	
	Maryland State Lottery Agency	444,897
	Economic Development Loan Programs	18,052
	Non-major Enterprise Funds	12,000
		<u>\$734,716</u>
Special Revenue Fund	General Fund	<u>\$116,136</u>
Non-major Governmental Funds	General Fund	\$266,606
	Special Revenue Fund	127,137
		<u>\$393,743</u>
Enterprise Funds -		
Loan Programs	General Fund	\$ 45,911
	Non-major Governmental Funds	19,914
		<u>\$ 65,825</u>

Transfers are primarily used to 1) transfer revenues from the fund required by statute or budget to collect the revenue to the fund required by statute or budget to expend them, 2) transfer receipts restricted to debt service from the funds collecting the receipts to the non-major governmental funds as debt service payments become due, and 3) provide unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations. In addition, the non-major governmental funds transferred \$2,584,000 of interest earned on bonds, \$20,387,000 return of funds for rescinded pay-as-you-go capital projects, \$805,000 of Shore Erosion loan funds, and \$681,000 of legal settlement funds to the general fund. The general fund transferred \$90,500,000 for redemptions and interest on state bonds and \$59,265,000 for program open space capital projects to the non-major governmental funds.



The Maryland State Lottery transferred revenue in excess of funds allocated to prize awards, operating expenses and capital expenditure payments in the amount of \$444,897,000, to the general fund. The general fund transferred \$45,911,000 to support the operations of Enterprise Funds – Loan Programs and the Enterprise Funds – Loan Programs transferred \$6,052,000 of unused funds to the general fund. Also, expenditures for capital projects of \$19,914,000 were transferred to Enterprise Funds – Loan Programs.

During the year, the general fund and other governmental funds had expenditures of \$866,723,000, and \$233,179,000, respectively, that were for funds provided to supplement revenues and construction costs, respectively, of the higher education component units. The general fund also had expenditures of \$21,949,000 that were for funds provided to supplement revenues of the Maryland Stadium Authority.

## 10. Special Items:

As part of the Budget Reconciliation and Financing Acts of 2002 and 2003, certain one-time distributions were made to the general fund for the fiscal year ended June 30, 2003. These payments include \$114,200,000 from the Injured Workers' Insurance Fund, a related organization.

## 11. Capital Assets:

### A. Capital Assets, Primary Government:

Capital assets activity by asset classification net of accumulated depreciation, for the year ended June 30, 2003, was as follows (amounts expressed in thousands).

#### Governmental activities:

Classification	Balance July 1, 2002	Additions	Deletions	Transfers In (Out)	Balance June 30, 2003
Capital assets, not being depreciated,					
Land and improvements . . . . .	\$ 2,260,243	\$ 86,302	\$ 10,379	\$ 50,020	\$ 2,386,186
Art and historical treasures . . . . .	26,622	159		102	26,883
Construction in progress . . . . .	2,083,874	1,019,923	35,373	(836,460)	2,231,964
Total capital assets, not being depreciated . . . . .	4,370,739	1,106,384	45,752	(786,338)	4,645,033
Capital assets, being depreciated,					
Structures and improvements . . . . .	3,952,710	79,931	7,974	265,653	4,290,320
Equipment . . . . .	1,673,343	192,853	44,002	39,063	1,861,257
Infrastructure . . . . .	11,282,784	257,801	2	481,622	12,022,205
Total capital assets, being depreciated . . . . .	16,908,837	530,585	51,978	786,338	18,173,782
Less accumulated depreciation for,					
Structures and improvements . . . . .	1,353,745	115,046	5,966		1,462,825
Equipment . . . . .	940,271	151,579	27,219		1,064,631
Infrastructure . . . . .	4,464,147	468,974	1		4,933,120
Total accumulated depreciation . . . . .	6,758,163	735,599	33,186		7,460,576
Total capital assets, net . . . . .	\$ 14,521,413	\$ 901,370	\$ 64,544		\$15,358,239

#### Business-type activities:

Classification	Balance July 1, 2002	Additions	Deletions	Balance June 30, 2003
Capital assets, not being depreciated,				
Land and improvements . . . . .	\$ 105,080			\$ 105,080
Capital assets, being depreciated				
Structures and improvements . . . . .	1,113	\$ 47	\$ 18	1,142
Equipment . . . . .	40,839	2,646	10,875	32,610
Infrastructure . . . . .	2,106,909	56,099		2,163,008
Total capital assets, being depreciated . . . . .	2,148,861	58,792	10,893	2,196,760
Less accumulated depreciation for,				
Structures and improvements . . . . .	667	69	12	724
Equipment . . . . .	25,639	2,894	10,867	17,666
Infrastructure . . . . .	803,139	52,408		855,547
Total accumulated depreciation . . . . .	829,445	55,371	10,879	873,937
Total capital assets, net . . . . .	\$1,424,496	\$ 3,421	\$ 14	\$ 1,427,903



*B. Depreciation Expense, Primary Government:*

The depreciation expense for the year ended June 30, 2003, for the primary government was charged as follows (amounts expressed in thousands).

Governmental activities:

Function	Amount
General government . . . . .	\$ 23,216
Education . . . . .	13,392
Judiciary. . . . .	3,197
Business and economic development. . . . .	13
Labor, licensing and regulation . . . . .	505
Human resources . . . . .	27,019
Health and mental hygiene . . . . .	16,133
Environment . . . . .	621
Transportation . . . . .	584,391
Public safety. . . . .	44,908
Housing and community development . . . . .	1,510
Natural resources and recreation . . . . .	14,200
Agriculture. . . . .	6,494
Total depreciation expense – governmental activities . . . . .	\$735,599

Business-type activities:

Function	Amount
State Lottery . . . . .	\$ 1,830
Transportation Authority . . . . .	52,403
State Use Industries . . . . .	1,135
Economic Development Loan Programs . . . . .	3
Total depreciation expense-business type activities . . . . .	\$ 55,371

## 12. Long-Term Obligations:

*A. Governmental Activities:*

Changes in governmental activities' long-term debt, for the year ended June 30, 2003, are as follows (amounts expressed in thousands).

	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due Within One Year
Bonds and Notes Payable:					
General Obligation Bonds . . . . .	\$ 3,544,178	\$ 1,101,950	\$ (713,635)	\$ 3,932,493	\$ 330,215
Transportation Bonds . . . . .	717,980	607,405	(360,985)	964,400	94,710
Less: Deferred amounts:					
For issuance premiums . . . . .	53,801	172,438	(13,260)	212,979	
On refunding . . . . .		(28,142)	3,892	(24,250)	
Total bonds and notes payable . . . . .	4,315,959	1,853,651	(1,083,988)	5,085,622	424,925
Other Liabilities:					
Compensated absences . . . . .	218,681	168,406	(155,781)	231,306	143,220
Self insurance costs . . . . .	234,651	666,940	(639,369)	262,222	100,798
Escheat property . . . . .	23,010	24,526	(16,598)	30,938	17,100
Obligations under capital leases . . . . .	220,649	104,393	(62,250)	262,792	44,064
Obligations under capital leases with component units . . . . .	290,510	16,262	(10,100)	296,672	12,528
Other long-term liabilities . . . . .	119,460	216,362	(13,130)	322,692	600
Total other liabilities . . . . .	1,106,961	1,196,889	(897,228)	1,406,622	318,310
Total long-term liabilities-governmental activities . . . . .	\$5,422,920	\$3,050,540	\$(1,981,216)	\$6,492,244	\$743,235

## General Obligation Bonds -

General obligation bonds are authorized and issued primarily to provide funds for State owned capital improvements, facilities for institutions of higher education and the construction of public schools in political subdivisions. Bonds have also been issued for local government improvements, including grants and loans for water quality improvement projects and correctional facilities, and to provide funds for loans or outright grants to private, not-for-profit cultural or educational institutions. Under constitutional requirements and practice, the Maryland General Assembly, by a separate enabling act, authorizes loans for particular objects or purposes. Thereafter, the Board of Public Works, a constitutional body comprised of the Governor, the Comptroller and the State Treasurer, by resolution, authorizes the issuance of bonds in specified amounts for part or all of the loans authorized by particular enabling acts. General obligation bonds are subject to arbitrage regulations. However, there are no major outstanding liabilities in connection with these regulations as of June 30, 2003. Bonds issued after January 1, 1988, are subject to redemption provisions at the option of the State.

General obligation bonds, which are paid from the general obligation debt service fund, are backed by the full faith and credit of the State and, pursuant to the State Constitution, must be fully paid within 15 years from the date of issue. Property taxes, debt service fund loan repayments and general fund appropriations provide the resources for repayment of general obligation bonds. During fiscal year 2003, the State issued \$1,101,950,000 of general obligations at a premium of \$124,707,000 with related issuance costs of \$551,000.

Of the total general obligation bonds of \$1,101,950,000 issued during fiscal year 2003, \$376,950,000 was issued to refund certain outstanding general obligation bonds issued between 1991 and 1995. The remainder was used to fund capital improvements. The amounts related to the refunding bonds and related premium of \$410,878,000 were transferred to an escrow account and used to purchase state and local government securities. These securities will be used to secure the principal, call premium, and interest related to the refunded bonds. The interest rates on the refunded bonds range from 4.5% to 5.9%. The purpose of the refunding was to realize savings on debt service costs. The aggregate difference in debt service between the refunded debt and the refunding debt is \$23,868,000. The economic gain on the transaction, that is, the difference between the present value of the debt service streams for the refunding debt and refunded debt, is \$21,086,000.

Refunded bonds of \$250,270,000 (including \$233,785,000 refunded during the year ended June 30, 2003) maturing in fiscal years 2006-2010 and callable in fiscal years 2004 and 2005 were considered defeased as of June 30, 2003. Accordingly, the trust account assets and the liability for the defeased bonds are not included in these financial statements.

General obligation bonds issued and outstanding, as of June 30, 2003, are as follows (amounts expressed in thousands).

Issue	Maturity	Interest Rates	Principal Issued	Principal Outstanding
2/2/93	1996-2008	4.75-5.50	\$ 130,000	\$ 10,895
6/3/93(a)	1994-2008	4.50-5.50	278,150	60,025
10/21/93(a)	1995-2009	3.00-4.75	283,545	128,750
3/3/94	1997-2009	3.50-4.75	119,965	40,475
6/2/94	1997-2009	4.88-5.50	120,000	19,610
10/20/94	1998-2010	5.00-6.00	160,000	38,195
3/23/95 1	998-2010	5.00-5.70	175,000	41,830
10/26/95	1998- 2010	4.50-5.13	150,000	102,690
2/29/96	1999-2011	4.00-4.90	170,000	116,385
6/20/96	1999-2011	5.00-5.25	150,000	103,410
10/24/96	2000-2012	5.00	170,000	128,955
3/13/97	2000-2012	5.00	240,000	181,605
8/14/97	2001-2013	4.75-5.00	250,000	205,505
3/5/98	2001-2013	4.50-5.00	250,000	205,505
7/28/98	2002-2014	5.00-5.25	250,000	221,065
3/11/99	2002-2014	4.00-4.50	225,000	198,030
7/29/99	2003-2015	4.25-5.25	125,000	117,670
8/3/00	2004-2016	5.13-5.75	200,000	200,000
3/8/01	2004-2016	4.00-5.50	200,000	200,000
7/15/01	2005-2017	5.00-5.50	200,000	200,000
11/21/01	2016	0 (b)	18,098	18,098
3/6/02(a)	2003-2017	4.00-5.50	309,935	301,295
8/15/02(a)	2003-2018	3.00-5.50	515,830	506,380
3/6/03(a)	2006-2018	5.00-5.25	586,120	586,120
			<u>\$5,276,643</u>	<u>\$3,932,493</u>

(a) Includes refunding debt

(b) Qualified Zone Academy Bonds are non-interest bearing.

General obligation bonds authorized, but unissued, as of June 30, 2003, total \$1,793,483,000.

As of June 30, 2003, general obligation debt service requirements for principal and interest in future years are as follows (amounts expressed in thousands).

Years Ending June 30,	Principal	Interest
2004 .....	\$ 330,215	\$ 193,216
2005 .....	347,775	178,572
2006 .....	386,025	161,093
2007 .....	372,395	142,426
2008 .....	352,615	125,102
2009-2013 .....	1,456,835	374,152
2014-2018 .....	686,633	85,347
Total .....	<u>\$3,932,493</u>	<u>\$1,259,908</u>

On August 15, 2003, general obligation bonds aggregating \$500,000,000 were issued for capital improvements. The interest rate on the new issue is 5.0%, and the bonds mature serially through 2019.

*Transportation Bonds -*

Transportation bonds outstanding as of June 30, 2003, are as follows (amounts expressed in thousands).

	Outstanding
Consolidated Transportation Bonds - 2.0% to 5.8%, due serially through 2018 .....	\$615,500
Consolidated Transportation Bonds, Refunding -1.5% to 5.5%, due serially through 2009 .....	345,745
County Transportation Bonds -- 5.9% to 6.2%, due serially through 2006 .....	3,155
Total .....	<u>\$964,400</u>

Consolidated Transportation Bonds are limited obligations issued by the Maryland Department of Transportation (Department) for highway, port, airport, rail, or mass transit facilities, or any combination of such facilities. The principal must be paid within 15 years from the date of issue.

As provided by law, the General Assembly shall establish in the budget for any fiscal year a maximum outstanding aggregate amount of these Consolidated Transportation Bonds as of June 30 of the respective fiscal year that does not exceed \$1,500,000,000. The aggregate principal amount of those bonds that was allowed to be outstanding as of June 30, 2003, was \$1,075,000,000. The aggregate principal amount of Consolidated Transportation Bonds outstanding as of June 30, 2003, was \$961,245,000. Consolidated Transportation Bonds are paid from the transportation debt service fund. Principal and interest on Consolidated Transportation Bonds are payable from the proceeds of certain excise taxes levied by statute and a portion of the corporate income tax credited to the Department. These amounts are available to the extent necessary for that exclusive purpose before being available for other uses by the Department. If those tax proceeds become insufficient to meet debt service requirements, other receipts of the Department are available for that purpose. The holders of such bonds are not entitled to look to other State resources for payment.

Under the terms of the authorizing bond resolutions, additional Consolidated Transportation Bonds may be issued, provided, among other conditions, that (1) total receipts (excluding Federal funds for capital projects, bond and note proceeds, and other receipts not available for debt service), less administration, operation and maintenance expenses for the preceding fiscal year, equal at least two times the maximum annual debt service on all Consolidated Transportation Bonds outstanding and to be issued, and that (2) total proceeds from pledged taxes equal at least two times the maximum annual debt service on all Consolidated Transportation Bonds outstanding and to be issued.

County Transportation Bonds are issued by the Department, and the proceeds are used by participating counties and Baltimore City to fund local road construction, reconstruction and other transportation projects and facilities and to provide local participating funds for federally-aided highway projects. Debt service on these bonds is payable from the counties' and Baltimore City's shares of highway user revenues. Legislation was enacted during the 1993 session of the General Assembly that established an alternative County transportation bond program. This new legislation provides features similar to the previous program except that the County transportation debt will be the obligation of the participating counties rather than the Department.

Arbitrage regulations are applicable to the transportation bonds payable. The Department estimates there are no material liabilities for arbitrage rebates as of June 30, 2003.

During fiscal year 2003, the Department issued \$607,405,000 of Consolidated Transportation Bonds at a premium of \$47,731,000. Of the total bonds issued, \$262,405,000 was used to refund certain bonds issued between 1992 and 1994. The remainder was used to fund capital improvements. The amounts related to the refunding bonds and related premium of \$273,968,000 were transferred to an escrow agent and used to purchase U.S. Government securities. These securities will be used to secure the principal, call premium, and interest related to the refunded bonds. The purpose of the refunding was to realize savings on debt service costs. The aggregate difference in debt service between the refunded debt and the refunding debt is \$13,423,000. The economic gain on the transaction is \$14,238,000.

Refunded bonds of \$46,500,000 (refunded during the year ended June 30, 2003) were considered defeased as of June 30, 2003. Accordingly, the trust account assets and the liability for the defeased bonds are not included in these financial statements.

As of June 30, 2003, Department bond debt service requirements for principal and interest in future years are as follows (amounts expressed in thousands).

Years Ending June 30	Consolidated and County Transportation Bonds	
	Principal	Interest
2004 .....	\$ 94,710	\$ 41,701
2005 .....	116,470	38,386
2006 .....	92,280	34,090
2007 .....	61,995	30,838
2008 .....	62,700	28,190
2009-2013 .....	262,195	104,556
2014-2018 .....	274,050	39,448
Total .....	<u>\$964,400</u>	<u>\$317,209</u>

#### *Obligations Under Capital Leases -*

Obligations under capital leases as of June 30, 2003, bore interest at annual rates ranging from 2.0% to 5.9%. Capital Lease Obligations with third parties in fiscal year 2003 increased by \$104,393,000 for master equipment leases entered into by the general fund. The capital leases with component units include capital leases with the Maryland Stadium Authority, which are being paid with the net proceeds transferred from certain Lottery games, and capital leases with other non-major component units. Following is a schedule of annual future minimum payments under these obligations, along with the present value of the related net minimum payments as of June 30, 2003 (amounts expressed in thousands).

Years Ending June 30,	Capital Lease Obligations with	
	Third Parties	Component Units
2004 .....	\$ 68,427	\$ 32,772
2005 .....	60,007	32,445
2006 .....	46,947	33,154
2007 .....	37,610	33,040
2008 .....	35,421	33,144
2009-2013 .....	150,776	162,108
2014-2018 .....	133,050	135,491
2019-2023 .....	111,160	76,029
2024-2028 .....	85,775	21,046
2029-2033 .....	31,325	
Total future minimum payments .....	<u>760,498</u>	<u>559,229</u>
Less: Amount representing interest .....	(289,101)	(220,100)
Less: Restricted cash and investments .....	(208,605)	(42,457)
Present value of net minimum payments .....	<u>\$262,792</u>	<u>\$296,672</u>

The reduction shown for restricted cash and investments in the amount of \$251,062,000 is monies held by the bond trustee on behalf of the Maryland Economic Development Corporation to be used primarily for construction expenditures.

The assets acquired through capital leases are as follows (amounts expressed in thousands).

Asset:	Third Parties Amount
Construction in progress . . . . .	\$ 40,713
Land and improvements . . . . .	13,348
Buildings and improvements . . . . .	366,578
Machinery and equipment . . . . .	169,227
Infrastructure . . . . .	30,692
Total acquired assets . . . . .	620,558
Less: accumulated depreciation . . . . .	(134,501)
Total capital assets-net. . . . .	\$ 486,057

*Other Liabilities –*

The Maryland Department of Transportation has entered into several financing agreements, primarily with the Maryland Transportation Authority, for the financing of various transportation related projects, similar in nature to capital leases. The Department has obligations under other long-term liabilities of \$264,099,000 as of June 30, 2003, bearing interest at annual rates ranging from 2.7% to 6.6%. Following is a schedule of annual future minimum payments under these obligations, along with the present value of the related net minimum payments as of June 30, 2003 (amounts expressed in thousands).

Years ending June 30,	Other Liabilities
2004 . . . . .	\$ 21,417
2005 . . . . .	26,600
2006 . . . . .	27,992
2007 . . . . .	29,375
2008 . . . . .	29,742
2009-2013 . . . . .	148,821
2014-2018 . . . . .	146,396
2019-2023 . . . . .	139,548
2024-2028 . . . . .	117,896
2029-2032 . . . . .	44,108
Total future minimum payments . . . . .	731,895
Less: Amount representing interest . . . . .	(350,475)
Less: Restricted cash and investments . . . . .	(117,321)
Present value of net minimum payments . . . . .	\$ 264,099

The reduction shown for restricted cash and investments in the amount of \$117,321,000 is monies held by the bond trustee on behalf of the Maryland Transportation Authority to be used primarily for construction expenditures.

The assets acquired through other long-term liabilities are as follows (amounts expressed in thousands).

Asset	Amount
Construction in progress . . . . .	\$183,909
Buildings and improvements . . . . .	95,979
Total acquired assets . . . . .	279,888
Less: accumulated depreciation . . . . .	(320)
Total capital assets – net . . . . .	\$279,568

Included in Other Liabilities is the State's Net Pension Obligation of \$58,593,000.

For the governmental activities, compensated absences, self insurance, escheat property claim payments, obligations under capital leases and other liabilities are generally liquidated by the general or special revenue fund as applicable.

*B. Long Term Obligations – Business-type Activities:*

Changes in long-term obligations for business-type activities as of June 30, 2003, are as follows (amounts expressed in thousands).

	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due Within One Year
Bonds Payable:					
Revenue bonds payable .....	\$3,412,923	\$ 309,534	\$ 501,660	\$3,220,797	\$422,893
Other Liabilities:					
Lottery prizes .....	333,601	1,004,352	921,024	416,929	188,147
Rebate liability .....	19,671	12,280	3,843	28,108	2,112
Compensated absences .....	6,854	5,392	5,081	7,165	4,793
Self insurance costs .....	5,424	1,794	1,501	5,717	886
Obligations under capital leases .....	3,243	127	999	2,371	1,242
Total other liabilities .....	368,793	1,023,945	932,448	460,290	197,180
Total long-term liabilities-business type activities .....	\$3,781,716	\$1,333,479	\$1,434,108	\$3,681,087	\$620,073

Debt service requirements for business-type activities' revenue bonds to maturity are as follows (amounts expressed in thousands).

Years Ending June 30,	Community Development Administration		Maryland Water Quality Financing Administration		Maryland Transportation Authority	
	Principal	Interest	Principal	Interest	Principal	Interest
2004 .....	\$ 391,625	\$ 122,095	\$ 10,813	\$4,538	\$ 20,455	\$ 27,239
2005 .....	65,995	114,160	9,270	4,742	21,222	26,042
2006 .....	69,950	111,154	8,368	5,084	30,355	25,262
2007 .....	76,120	107,938	9,727	4,582	33,350	23,694
2008 .....	81,300	104,357	9,719	4,443	16,222	21,986
2009-2013 .....	404,355	462,281	50,433	11,187	83,756	101,940
2014-2018 .....	419,085	353,722	9,465	809	114,485	78,254
2019-2023 .....	374,660	244,383			87,380	52,168
2024-2028 .....	317,275	144,028			92,120	25,776
2029-2033 .....	212,000	65,696			37,545	6,563
2034-2038 .....	67,800	27,802				
2039-2043 .....	54,600	9,909				
2044-2048 .....	8,435	494				
Total .....	2,543,200	1,868,019	107,795	35,385	536,890	388,924
Discounts, premiums and other deferred costs .....	(5,812)					
Accumulated accreted interest .....					38,724	
Total .....	\$2,537,388	\$1,868,019	\$107,795	\$35,385	\$ 575,614	\$388,924

*Community Development Administration (Administration) – Revenue Bonds:*

The Administration, an agency of the Department of Housing and Community Development, has issued revenue bonds, the proceeds of which were used for various mortgage loan programs. Assets aggregating approximately \$3,003,939,000 and revenues of each mortgage loan program are pledged as collateral for the revenue bonds. Interest rates range from 1.0% to 9.5%, with the bonds maturing serially through July, 2045. The principal amount outstanding as of June 30, 2003, is \$2,537,388,000. Substantially all bonds are subject to redemption provisions at the option of the Administration. Redemptions are permitted at rates ranging from 100% to 102% of the outstanding principal amount. During fiscal year 2003, the Administration issued \$304,775,000 of revenue bonds with interest rates ranging from 1.0% to 5.2% and maturing serially through July, 2045.

During the year ended June 30, 2003, the Administration issued \$102,530,000 to current refund \$101,645,000 of outstanding various Multi-Family Housing Revenue Bonds issued between 1992 and 1993 with interest rates ranging from 4.7% to 9.3%, in order to realize savings. The refunding bonds have interest rates ranging from 1.0% to 4.4% and maturities ranging from 2004-2034. The aggregate difference in debt service between the refunded debt and the refunding debt is \$30,148,000. The economic gain on the transactions, that is, the difference between the present value of the debt service streams for the refunding debt and refunded debt, is \$23,658,000.



The Administration issues short-term tax-exempt bonds to preserve its allocation of the state volume ceiling until the issuance of long-term bonds to finance mortgages. In fiscal year 2003, the Administration issued Series 2002, Series D and Series 2002, Series E, which are still outstanding as of June 30, 2003. Series 2002, Series B and Series 2002, Series C were issued in fiscal year 2002 and either were redeemed prior to maturity or matured in fiscal year 2003.

The short-term debt that was issued in fiscal year 2003 was in the Residential Revenue Bond Program Fund. The following summarizes short-term debt activity in 2003 (amounts expressed in thousands).

Outstanding short-term debt at June 30, 2002 . . . . .	\$ 97,275
Issuance . . . . .	109,945
Retirements . . . . .	97,275
Outstanding short-term debt as of June 30, 2003 . . . . .	<u>\$109,945</u>

This amount of short-term debt is included in the restricted revenue bonds payable on the Statement of Net Assets.

Subsequent to June 30, 2003, the Administration issued a total of \$28,395,000, and redeemed a total of \$219,920,000, of revenue bonds.

*Maryland Water Quality Financing Administration (Administration) - Revenue Bonds:*

The Administration, an agency of the Department of Environment, has issued revenue bonds for providing loans. Interest rates range from 4.6% to 6.9% with principal of \$96,130,000 due serially from September 1, 2003 to September 1, 2014, and term bonds with an aggregate principal of \$11,665,000 due from September 1, 2013 to 2015. These bonds are payable solely from the revenue, money or property of the Administration. The bonds are subject to redemption provisions at the option of the Administration. Redemptions are permitted at premiums ranging up to 2.5% of the outstanding principal amount.

As of June 30, 2003, the Administration had \$6,785,000 of debt defeased. The loss of \$506,000 from the defeasance is being deferred and amortized through interest expense through the year 2011.

*Maryland Transportation Authority Bonds:*

Bonds outstanding as of June 30, 2003, are as follows (amounts expressed in thousands).

Series 1991 Revenue bonds, maturing in annual installments from \$6,830 to \$9,380 from July 1, 2002, to July 1, 2006, with interest rates ranging from 6.3% to 6.5 %, payable semiannually . . . . .	\$ 19,195
Series 1992 Revenue bonds, current interest serial bonds, maturing in annual installments from \$11,965 to \$14,570 from July 1, 2002, to July 1, 2013, with interest rates ranging from 5.5% to 5.8%, payable semiannually . . . . .	52,745
Series 1992 Capital appreciation revenue bonds maturing in annual installments of original principal and an accreted amount ranging from \$3,000 to \$15,420 from July 1, 2004, to July 1, 2015, with approximate yield to maturity of 6.0% to 6.4% . . . . .	79,619
Series 1992 Current interest term revenue bonds with interest payable semiannually at 5.8%, due July 1, 2015 . . . . .	27,020
Series 1998 Revenue refunding bonds maturing in annual installments ranging from \$210 to \$9,510 from July 1, 2002 to July 1, 2006, with interest rates ranging from 4.4% to 5.0%, payable semiannually . . . . .	15,615
BWI Consolidated Car Rental Facility Revenue bonds, Series 2002 a, maturing in annual installments ranging from \$600 to \$8,505 from July 1, 2004, to July 1, 2033, with interest rates ranging from 2.7% to 6.7%, payable semiannually . . . . .	117,345
BWI Parking Garage Revenue Bonds, Series 2002 b, maturing in annual installments ranging from \$4,315 to \$17,470 from March 1, 2005, to March 1, 2027, with interest rates ranging from 4.0% to 5.5%, payable semiannually . . . . .	264,075
Total . . . . .	<u>\$575,614</u>

Revenue bonds are payable solely from the revenues of the transportation facilities projects. The Series 1991 and 1992 Revenue Bonds are subject to redemption at the Authority's option on or after July 1, 2003, at redemption prices ranging from 100% to 102% of the principal amount.

Capital appreciation bonds payable as of June 30, 2003, include an accreted amount of \$38,724,000.

The Authority entered into an Escrow Deposit Agreement on June 10, 2003, to defease \$69,525,000, the outstanding principal amount of the 1994 Series Special Obligation Revenue Bonds and deposited \$86,671,000 with an escrow agent. The revenue bonds are callable on July 1, 2004. The revenue bonds are considered defeased, and the liability for these bonds has been removed from the financial statements.

During the year ended June 30, 2002, the Authority issued \$117,345,000, of BWI Consolidated Car Rental Facility Revenue Bonds, Series 2002 to finance the costs of a car rental facility located at Baltimore/Washington International Airport. The facility is leased to the Maryland Aviation Administration (MAA) through a direct financing lease. The Baltimore/Washington International (BWI) Consolidated Car Rental Facility Revenue Bonds are payable as to principal and interest solely from customer facility charges from the MAA. The Revenue Bonds issued in accordance with the provisions of the 2002 Trust Agreement, as supplemented, and interest thereon, do not constitute a debt or pledge of the faith and credit of the State of Maryland, the Maryland Department of Transportation or the MAA, but are payable solely from the customer facility charges which the Authority will receive in the form of direct financing lease payments.

During the year ended June 30, 2002, the Authority issued \$264,075,000 of BWI Parking Garage Revenue Bonds, Series 2002, to finance the costs of a parking garage located at the Baltimore/Washington International Airport. The parking garage is leased to the MAA through a direct financing lease. The Revenue Bonds are payable as to principal and interest solely from parking fees collected. The Revenue Bonds issued in accordance with the provisions of the 2002 Trust Agreement, as supplemented, and interest thereon, do not constitute a debt or pledge of the faith and credit of the State of Maryland, the Maryland Department of Transportation or the MAA, but are payable solely from parking fees, which the Authority will receive in the form of direct financing lease payments.

#### *Obligations Under Capital Leases -*

Obligations of business-type activities under capital leases as of June 30, 2003, are as follows (amounts expressed in thousands).

Years Ending June 30,	State Lottery Agency
2004.....	\$1,360
2005.....	1,128
2006.....	43
Total minimum lease payments.....	2,531
Less: Imputed interest.....	160
Present value of net minimum lease payments.....	\$2,371

The Lottery has entered into lease agreements for certain on-line gaming system equipment and a computer system. As of June 30, 2003, the fair value of the assets recorded under leases and the related accumulated amortization totaled \$4,472,000 and \$2,523,000, respectively, and are included in capital assets in the Statement of Net Assets, Business-type Activities.

#### *C. Notes and Revenue Bonds Payable - Component Units:*

##### *Higher Education -*

Certain State higher education institutions have issued revenue bonds and mortgage loans payable for the acquisition and construction of student housing and other facilities. Student fees and other user revenues collateralize the revenue bonds. The mortgage loans payable are collateralized by real estate. Interest rates range from 2.0% to 7.0% on the revenue bonds with the rate being 3% on the mortgage loans payable. Since June 1992, the University System of Maryland (System) has issued serial notes payable to finance the acquisition of new equipment and to refinance the balance of amounts due under certain installment purchase agreements for equipment then in the possession of the System. Payments of principal and interest, at rates ranging from 5.8% to 6.1%, are to be made semiannually through 2007. The notes payable are callable, at the option of the System, at premiums of no more than 2.0% of the outstanding principal, beginning in 2004.



Debt service requirements to maturity are as follows (amounts expressed in thousands).

Years Ending June 30,	Notes Payable and Other Long-Term Debt		Revenue Bonds	
	Principal	Interest	Principal	Interest
2004 .....	\$3,325	\$4,142	\$47,769	\$46,185
2005 .....	3,625	3,960	47,801	42,262
2006 .....	3,322	3,759	51,851	38,173
2007 .....	1,813	3,609	54,746	35,963
2008 .....	1,896	3,514	56,850	33,649
2009-2013 .....	26,285	15,932	266,487	127,802
2014-2018 .....	36,361	3,035	202,920	67,798
2019-2023 .....			122,199	21,727
2024-2028 .....			16,295	5,900
2029-2032 .....			15,040	1,859
Total .....	<u>76,627</u>	<u>37,951</u>	<u>881,958</u>	<u>421,318</u>
Accumulated accreted interest and other deferred costs .....	(17)		9,622	
Total .....	<u>\$76,610</u>	<u>\$37,951</u>	<u>\$891,580</u>	<u>\$421,318</u>

The bonds issued are the debt and obligation of the issuing higher education institutions and are not a debt and obligation of, or pledge of, the faith and credit of the State.

As of June 30, 2003, Morgan State University has \$11,153,000 of defeased debt outstanding, resulting from the refunding of the 1990 Revenue Bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in these financial statements.

At June 30, 2003, investments were held by the trustee for St. Mary's College in the amount of \$3,702,000, and restricted investments were held for Morgan State University in the amount of \$40,312,000.

On January 9, 2003, Morgan State University issued Academic Fees and Auxiliary Facilities Fees Refunding Bonds 2003 Series (2003 Series A Bonds and 2003 Series B Bonds), pursuant to Title 19 of the Education Article of the Annotated Code of Maryland, as amended, to provide funding toward a new student center, \$33,050,000, and University boiler plant, \$4,395,000. The revenue bonds mature July 1, 2032 (Series A) and July 1, 2022 (Series B), interest being paid semi-annually with rates ranging from 3.0%-5.0% and 2.0% - 5.0%, respectively.

On July 2, 2002, St. Mary's College issued \$13,650,000 of Academic and Auxiliary Facilities Fees Subordinate Revenue Bonds, 2002 Series A dated June 15, 2002. The revenue bond proceeds will be used mainly to pay for construction of a new student housing facility. Principal payments of the revenue bonds are due each September 1 annually beginning 2003 and ending 2033. The interest rates range from 3.0% to 5.0%. The bonds maturing after September 2012, are callable at premiums of up to 1.0%.

On August 1, 2003, St. Mary's College issued \$6,620,000 of Academic and Auxiliary Facilities Fees Subordinate Revenue Bonds, 2003 Series A. Proceeds of the bonds will primarily be used to repay the U.S. Department of Education loan, the costs of issuance and a reserve fund for the Subordinate Revenue Bonds, 2003 Series A. Principal payments on the Subordinate Revenue Bonds, 2003 Series A, range from \$190,000 to \$430,000 and are due on September 1 of each year from 2003 to 2023 with interest rates ranging from 2.5% to 4.8%.

At June 30, 2003, cash and cash equivalents in the amount of \$4,933,000 were held by the trustee as unexpended proceeds of the Revenue Bonds.

On July 3, 2002, the System issued \$142,350,000 of University System of Maryland Auxiliary Facility and Tuition Revenue Bonds, 2002 Series A bonds. The 2002 Series A bonds consist of serial bonds maturing through the year ended June 30, 2023, with stated rates of interest from 3.0% to 5.1%, and were issued at an aggregate premium of \$6,758,000. Of the proceeds of the 2002 Series A, approximately \$104,509,000 was used to fund new construction and renovation projects, while \$44,599,000 was used to advance refund an aggregate of \$40,945,000 of outstanding principal of the 1996 Series A, 2000 Series A, and 2001 Series A revenue bonds. The advance refunding of Revenue Bonds reduced future debt service requirements by \$1,984,000 and resulted in an economic gain, the present value of the difference between the debt service requirements on the old, refunded debt and the new debt of \$1,538,000. An unamortized amount on refunding of \$3,726,000 was recorded as a result of the advance refunding and is being amortized over the remaining life of the refunded debt.

On July 10, 2003, the System issued \$246,155,000 of University System of Maryland Auxiliary Facility and Tuition Revenue Bonds, including, \$228,035,000 of 2003 Series A, and \$18,120,000 of taxable 2003 Series B, collectively, the 2003 Series A & B, bonds. The 2003 Series A & B bonds consist of serial bonds maturing through the year ended June 30, 2024 with stated rates of interest from 1.8% to 5.0%, and were issued at an aggregate premium of \$21,019,000. Of the proceeds of the 2003 Series A & B

bonds, approximately \$105,500,000 will be used to fund new construction and renovation projects, while \$160,497,000 will be used to advance refund an aggregate of \$153,070,000 of outstanding principal of the 1993 Series A, 1993 Series B, 1993 Series C, and 1995 Series A revenue bonds.

On August 8, 2003, the System issued \$65,000,000 of University System of Maryland Revolving Loan Program Bonds, 2003 Series A. The Revolving Loan Program Bonds, 2003 Series A consist of auction reset securities, meaning that interest is calculated on outstanding Revolving Loan Program Bonds using rates of interest determined through a periodic auction process. The Revolving Loan Program Bonds, 2003 Series A mature on July 1, 2023, and may be converted to fixed interest rate instruments at the option of the System. Approximately \$13,927,000 of the proceeds of the Revolving Loan Program Bonds, 2003 Series A will be used to fund new equipment acquisitions, while \$50,174,000 will be used to advance refund \$49,585,000 of Equipment Loan Program Obligations.

Obligations under capital leases of \$10,592,000 exist as of June 30, 2003, bearing interest at annual rates ranging from 4.8% to 6.8%.

*Maryland Stadium Authority (Authority) – Revenue Bonds:*

Debt service requirements to maturity for Maryland Stadium Authority revenue bonds are as follows (amounts expressed in thousands).

Years Ending June 30,	Principal	Interest
2004 .....	\$ 11,015	\$ 19,380
2005 .....	11,760	18,507
2006 .....	12,915	18,200
2007 .....	13,770	17,333
2008 .....	14,725	16,517
2009-2013 .....	85,240	68,702
2014-2018 .....	92,610	40,398
2019-2023 .....	62,280	13,749
2024-2027 .....	18,921	2,121
Total .....	<u>\$323,236</u>	<u>\$214,907</u>

The Authority has issued various lease revenue bonds to finance the construction of the baseball and football stadiums, and convention center expansions in Baltimore City and the Town of Ocean City. The outstanding debt is to be repaid through capital lease payments from the State, as the State has entered into capital lease arrangements for the use of the facilities.

As of June 30, 2003, the Authority had outstanding revenue bonds for the construction, renovation and expansion of certain facilities as follows (amounts expressed in thousands).

Facility	Outstanding Amount	Interest Rates	Maturity Date
Baseball Stadium .....	\$139,896	3.0% to 5.7%	December 15, 2019
Football Stadium .....	83,642	4.7% to 5.8%	March 1, 2026
Baltimore City Convention Center .....	42,230	5.3% to 5.9%	December 15, 2014
Ocean City Convention Center .....	13,940	4.8% to 5.4%	December 15, 2015
Hippodrome Performing Arts Center .....	20,252	5.0% to 6.3%	June 15, 2022
Montgomery County Conference Center .....	23,276	2.0% to 5.0%	June 15, 2024
Total .....	<u>\$323,236</u>		

On July 10, 2002, the Authority issued Sports Facilities Taxable Lease Revenue Bonds Series 2002, to finance the payment of the bond anticipation notes in the amount of \$10,250,000. Principal and interest are payable primarily from the basic rent to be paid by the State under the Master Lease. Interest is payable semiannually at rates varying from 3.0% to 5.7% per annum. The bonds mature serially in varying amounts through September 15, 2013.

Also on July 10, 2002, the Authority issued Hippodrome Performing Arts Center Taxable Lease Revenue Bonds, Series 2002, to finance, together with certain other funds, the renovation of the Hippodrome Theater. Principal and interest are payable primarily from the basic rent to be paid by the State under the Master Lease. Interest is payable semiannually at rates varying from 5.0% to 6.3% per annum. The term bond is subject to mandatory sinking fund payments beginning June 15, 2014.

On January 14, 2003, the Authority issued tax exempt Montgomery County Conference Center Lease Revenue Bonds, Series 2003, to finance together with certain other funds the construction of the Montgomery County Conference Center. Principal and interest are payable primarily from the basic rent to be paid by the State under the Master Lease. Interest is payable semiannually at rates varying from 2.0% to 5.0% per annum. The bonds mature serially in varying amounts through June 15, 2024.

### 13. Insurance:

The self-insurance liabilities represent the State's liability for its various self-insurance programs. The State is self-insured for general liability, property and casualty, workers' compensation, environmental and anti-trust liabilities and certain employee health benefits. Commercial insurance coverage is purchased for specialized exposures such as aviation hull and liability, steam boiler coverage and certain transportation risks. There were no significant reductions or changes in the commercial insurance coverage from the prior year, and the amount of settlements have not exceeded insurance coverage for any of the past three fiscal years.

All funds, agencies and authorities of the State participate in the self-insurance program (Program). The Program, which is accounted for in the general fund, allocates the cost of providing claims servicing and claims payment by charging a "premium" to each fund, agency or public authority, based on a percentage of each organization's estimated current-year payroll or based on an average loss experienced by each organization. This charge considers recent trends in actual claims experience of the State as a whole and makes provision for catastrophic losses.

The Program's liabilities are reported when it is probable that a loss has occurred and the amount of that loss can be reasonably estimated. Liabilities include an amount for claims that have been incurred but not reported. Because actual claims liabilities depend on such complex factors as inflation, changes in legal doctrines, and damage awards, actual claims paid could differ from these estimates. Claims liabilities are reevaluated periodically to take into consideration recently settled claims, the frequency of claims and other economic and social factors. Non-incremental claims adjustment expenses have been included as part of the liability for claims and adjustments for the general liability, property and casualty, workers' compensation, environmental and anti-trust liabilities. Liabilities for incurred workers' compensation losses to be settled by fixed or reasonably determinable payments over a long period of time are reported at their present value using a 4.0% discount rate. The workers' compensation and property and casualty costs are based upon separately determined actuarial valuations for the following fiscal years ending. The employee health benefits liability is calculated based on claims subsequently reported and claims trends.

Changes in the self-insurance liabilities during fiscal year 2003 were as follows (amounts expressed in thousands).

	Beginning-of Fiscal-Year Liability	Claims and Changes in Estimates	Claim Payments	End-of Fiscal-Year Liability	Amount Due Within One Year
Property, casualty and general liability . . . . .	\$ 13,375	\$ 14,025	\$ 11,086	\$ 16,314	\$ 6,003
Workers' compensation . . . . .	194,690	54,478	37,651	211,517	32,785
Employee health benefits . . . . .	58,216	605,462	596,602	67,076	67,076
Total self-insurance costs . . . . .	\$266,281	\$673,965	\$645,339	\$294,907	\$105,864

As of June 30, 2003, the Program held \$115,242,000, in cash and investments designated for payments of these claims.

Changes in the self-insurance liabilities during fiscal year 2002 were as follows (amounts expressed in thousands).

	Beginning-of Fiscal-Year Liability	Claims and Changes in Estimates	Claim Payments	End-of Fiscal-Year Liability	Amount Due Within One Year
Property, casualty and general liability . . . . .	\$ 9,309	\$ 10,641	\$ 6,575	\$ 13,375	\$ 6,575
Workers' compensation . . . . .	186,321	49,447	41,078	194,690	30,194
Employee health benefits . . . . .	51,661	529,352	522,797	58,216	58,216
Total self-insurance costs . . . . .	\$247,291	\$589,440	\$570,450	\$266,281	\$94,985

As of June 30, 2002, the Program held \$189,503,000, in cash and investments designated for payments of these claims.

#### 14. Fund Equity:

A portion of the general fund balance, in the amount of \$513,607,000 as of June 30, 2003, has been reserved for the State Reserve Fund. The State Reserve Fund is comprised of the Dedicated Purpose Account, Economic Development Opportunities Program Account, Catastrophic Event Account, Revenue Stabilization Account and Joseph Fund Account with balances as of June 30, 2003, of \$11,431,000, \$3,525,000, \$228,000, \$490,197,000, and \$8,226,000, respectively. The Dedicated Purpose Account is designed to retain appropriations for major multi-year expenditures and to meet contingency requirements. The Economic Development Opportunities Program Account is to be used for extraordinary economic development opportunities and only as a supplement to existing programs. The Catastrophic Event Account is to be used to respond without undue delay to a natural disaster or other catastrophic event that cannot be managed without appropriations. The Revenue Stabilization Account is designed to retain State revenues for future needs and reduce the need for future tax increases. The purpose of the Joseph Fund Account is to set aside reserves in time of economic prosperity to meet the emerging needs of economically disadvantaged citizens of the State.

In addition, a portion of the general fund balance, in the amount of \$171,633,000, representing restricted revenue carryforwards, has been reserved. The largest restricted revenue carryforwards are related to health and mental hygiene programs, \$26,048,000, public safety programs, \$44,387,000, natural resources and recreation programs, \$62,705,000, and other, primarily judicial, agricultural, administrative, and educational, programs, \$38,493,000. Such amounts are reserved because the use of the funds is legally restricted for a specific purpose.

A portion of the other governmental funds' fund balance is reserved for sinking fund deposits of \$920,000 set aside to redeem the 2002 Qualified Zone Academy Bonds due in 2016. Furthermore, portions of the other governmental funds' unreserved fund balance are designated for payment of the debt service on other General Obligation and Department of Transportation long-term debt in the amounts of \$28,046,000 and \$2,769,000, respectively. The undesignated deficit balance is due to the reservations for encumbrances of \$431,549,000 for future construction projects.

#### 15. Segment Information:

The State's Economic Development Loan Program contains two separately identifiable activities that have separately issued revenue bonds outstanding; housing loans of the Community Development Administration and water quality loans of the Maryland Water Quality Administration.

The Community Development Administration (CDA) has issued revenue bonds, the proceeds of which were used for various mortgage loan programs. The assets of the loan program and revenues of each mortgage loan program are pledged as collateral for the revenue bonds. The bond indentures require the CDA to separately account for the identifiable activity's revenues, expenses, gains and losses, assets and liabilities.

The Maryland Water Quality Administration has issued revenue bonds to encourage capital investment for wastewater and drinking water projects. These bonds are payable solely from, and secured by, the revenue, money or property of the Maryland Water Quality Administration. The bond indentures require separate accounting for the identifiable activity's revenues, expenses, gains and losses, assets and liabilities.

Summary financial information for the two loan programs is presented below.

#### Condensed Statement of Net Assets

(Expressed in Thousands)

	Community Development Administration	Maryland Water Quality Administration
Assets:		
Current restricted assets . . . . .	\$ 714,594	\$ 31,655
Non-current restricted assets . . . . .	2,289,345	154,166
Total assets . . . . .	3,003,939	185,821
Liabilities payable from restricted assets:		
Due to other funds . . . . .	1,464	
Current liabilities . . . . .	499,873	14,111
Non-current liabilities . . . . .	2,171,966	96,982
Total liabilities . . . . .	2,673,303	111,093
Net Assets:		
Restricted . . . . .	330,636	74,728
Total net assets . . . . .	\$ 330,636	\$ 74,728

## Condensed Statement of Revenues, Expenses, and Changes in Net Assets

(Expressed in Thousands)

	Community Development Administration	Maryland Water Quality Administration
Operating income (expenses):		
Interest on loan income . . . . .	\$125,502	\$ 6,317
Interest and other investment income . . . . .	13,781	1,150
Interest expense . . . . .		(6,862)
Operating revenues . . . . .	4,607	(51)
Other operating expenses . . . . .	(15,390)	
Operating Income . . . . .	128,500	554
Non-operating revenues (expenses):		
Interest and other investment income . . . . .	31,194	
Interest expense . . . . .	(138,303)	
Other non-operating revenue (expenses) . . . . .	31,762	(3,590)
Change in net assets. . . . .	53,153	(3,036)
Beginning net assets. . . . .	277,483	77,764
Ending net assets. . . . .	\$330,636	\$74,728

## Condensed Statement of Cash Flows

(Expressed in Thousands)

	Community Development Administration	Maryland Water Quality Administration
Net cash provided (used) by:		
Operating activities . . . . .	\$ 311,370	\$ 18,809
Non-capital financing activities . . . . .	(234,791)	(18,405)
Investing activities . . . . .	68,344	(541)
Beginning cash and cash equivalents . . . . .	230,164	570
Ending cash and cash equivalents . . . . .	\$375,087	\$ 433

### 16. Retirement Benefits:

#### *State Retirement and Pension System of Maryland (System):*

The State contributes to the System, an agent multiple-employer public employee retirement system established by the State to provide pension benefits for State employees (other than employees covered by the Maryland Transit Administration Pension Plan described below) and employees of 132 participating political subdivisions or other entities within the State. The non-State entities that participate within the System receive separate actuarial valuations in order to determine their respective funding levels and actuarial liabilities. Retirement benefits are paid from the System's pooled assets rather than from assets relating to a particular plan participant. Consequently, the System is accounted for as a single plan as defined in GASB Statement No. 25, "Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans." The System prepares a separately audited Comprehensive Annual Financial Report, which can be obtained from the State Retirement and Pension System of Maryland, 120 E. Baltimore Street, Baltimore, Maryland 21202.

#### *Plan Description:*

The System, which is administered in accordance with the State Personnel and Pensions Article of the Annotated Code of Maryland, consists of several plans which are managed by the Board of Trustees for the System. All State employees and employees of participating entities are covered by the plans.

"Retirement System" - retirement programs for substantially all State employees, teachers, State police and judges who are not members of the State Pension System.

"Pension System" - retirement programs for employees and teachers hired after January 1, 1980, and prior employees who have elected to transfer from the Retirement System.

The System provides retirement, death and disability benefits in accordance with State statutes. Vesting begins after completion of 5 years of service. A member terminating employment before attaining retirement age, but after completing 5 years of service becomes eligible for a vested retirement allowance provided the member lives to age 60 (age 62 for the Pension System, age 50 for State police) and does not withdraw his or her accumulated contributions. Members of the Retirement System may retire with full benefits after attaining the age of 60, or completing 30 years of service credit, regardless of age. Members of the Pension Systems may retire with



full benefits after attaining the age 62, or after completing 30 years of service credit, regardless of age. State police members may retire with full benefits after attaining age 50, or completing 22 years of service credit, regardless of age. Members of the Law Enforcement Officers System may retire with full benefits at age 50, or completing 25 years of service credit, regardless of age.

The annual benefit for Retirement System Members is equal to 1/55 (1.8%) of the member's highest three-year average salary multiplied by the number of years of service credit. A member may retire with reduced benefits after completing 25 years of service, regardless of age. Legislation enacted during the 1998 legislative session changed certain provisions of the Pension Systems and provided for a contributory pension system and a non-contributory pension system. A member of the contributory pension system will generally receive, upon retirement, an annual service retirement allowance equal to 1.2% of the member's highest three-consecutive year average salary multiplied by the number of years of service credit on or before June 30, 1998, plus 1.4% of the highest three consecutive year average salary multiplied by the number of years of service credit after July 1, 1998. The annual benefit for a non-contributory pension system member is equal to 0.8% of the member's highest three-consecutive year average salary multiplied by the number of years of service credit, with a provision for additional benefits for compensation earned in excess of the Social Security wage base. A member of either type of pension system may retire with reduced benefits after attaining age 55 and completing 15 years of service.

The annual retirement allowance for a State Police member is equal to 2.55% of the member's highest three-year average salary multiplied by each year of service up to a maximum of 28 years. The annual retirement allowance for a member of the Law Enforcement Officers Pension System is 2.0% of the member's highest three-consecutive year average salary multiplied by each year of service up to a maximum of 30 years. Neither the State Police Retirement System nor Law Enforcement Officers Pension System provide for an early retirement. Recent legislation and Internal Revenue Service approval has created a Deferred Retirement Option Program (DROP) for members of the State Police and Law Enforcement Officers System. This program allows for a member to retire from the system, accrue retirement earnings, which are held in a separate account, and continue employment until a pre-determined date.

#### *Funding Policy:*

The State's required contributions are based upon actuarial valuations. Effective July 1, 1980, in accordance with the law governing the Systems, all benefits of the System are funded in advance. The entry age normal cost method is the actuarial cost method used to determine the employers' contribution rates and the actuarial accrued liability. Members of the Retirement System are required to contribute to the System a fixed percentage of their regular salaries and wages, 7.0% or 5.0% depending on the retirement plan selected. Members of the contributory pension system are required to contribute to the System 2.0% of their regular salaries and wages. Members of the non-contributory pension system are required to contribute to the System 5.0% of their regular salaries and wages that exceed the Social Security wage base. State Police members are required to contribute 8.0% of their regular salaries and wages to the System. Members of the Law Enforcement Officers Pension System are required to contribute 4.0% of their regular salaries and wages. All contributions are deducted from each member's salary, and wage payments are remitted to the System on a regular and periodic basis.

The contribution requirements of the System members, as well as the State and participating governmental employers, are established and may be amended by the Board of Trustees for the System. Effective July 1, 2002, State law provides that the contribution rates may be more or less than the actuarially determined rates for the Employees' Retirement and Pension Systems and the Teachers' Retirement and Pension Systems. During fiscal year 2003, the State paid \$556,626,000, of the required contribution totaling \$615,219,000, which was 7.66% of covered payroll. The State makes non-employer contributions to the System for local school system teachers. The covered payroll amount includes amounts for employees for whom the State pays retirement benefits, but does not pay the payroll. As of June 30, 2003, since the State did not make the total required contributions, there is a Net Pension Obligation of \$58,593,000. As of June 30, 2002 and 2001, the State had made all required contributions, and thus as of June 30, 2002 and 2001, the State did not have a net pension obligation for these years.

#### *Annual Pension Cost and Net Pension Obligation:*

Three Year Historical Trend Information for the System is as follows (amounts expressed in thousands).

Plan	Annual Pension Cost Fiscal Year Ended June 30,		
	2003	2002	2001
Teachers' Retirement and Pension System . . . . .	\$412,924	\$360,993	\$403,423
Employees' Retirement and Pension System . . . . .	159,200	142,218	161,656
State Police Retirement System . . . . .	4,850	4,907	6,891
Judges' Retirement System . . . . .	14,851	13,375	14,575
Law Enforcement Officers Pension System . . . . .	23,394	20,360	12,144

Plan	Percentage of Annual Pension Cost Contributed		
	Fiscal Year Ended June 30,		
	2003	2002	2001
Teachers' Retirement and Pension System . . . . .	94%	100%	100%
Employees' Retirement and Pension System . . . . .	79	100	100
State Police Retirement System . . . . .	100	100	100
Judges' Retirement System . . . . .	100	100	100
Law Enforcement Officers Pension System . . . . .	100	100	100

Contributions of \$338,220,000 and \$125,311,000 were made to the Teachers' Retirement and Pension System and the Employees' Retirement and Pension System, respectively, during fiscal year 2003. In addition, for fiscal year 2003 the State's contribution to the Teachers' Retirement and Pension System and Employees' Retirement and Pension System was based on the Corridor Funding Method.

The State's net pension obligation is as follows (amounts expressed in thousands).

Plan	Net Pension Obligation		
	Fiscal Year Ended June 30,		
	2003	2002	2001
Teachers' Retirement and Pension System . . . . .	\$24,704	\$ -	\$ -
Employees' Retirement and Pension System . . . . .	33,889	-	-
State Police Retirement System . . . . .	-	-	-
Judges' Retirement System . . . . .	-	-	-
Law Enforcement Officers Pension System . . . . .	-	-	-

In addition, there was no transition liability determined in accordance with GASB Statement No. 27.

The fiscal year 2003 annual pension cost and net pension obligations were determined as a part of an actuarial valuation as of June 30, 2003. The significant actuarial assumptions listed below were used for all plans.

Valuation method . . . . .	Entry Age Normal Cost Method
Cost method of valuing assets . . . . .	Smoothing (difference in experienced and assumed return)
Rate of return on investments . . . . .	7.75%
Rate of salary increase . . . . .	Varies
Projected inflation rate . . . . .	3.0%; general wage inflation is 4% which includes the 3.0% inflation assumption.
Post retirement benefit increase . . . . .	Varies
Amortization method . . . . .	Level Percent of Payroll
Remaining amortization period . . . . .	17 years as of June 30, 2003 for prior UAAL
New layer as of June 30, 2001 . . . . .	23 years as of June 30, 2003 for new UAAL
New layer as of June 30, 2002 . . . . .	24 years as of June 30, 2003 for new UAAL
New layer as of June 30, 2003 . . . . .	25 years as of June 30, 2003 for new UAAL
Status of period (Open or Closed) . . . . .	Closed

*Maryland Transit Administration Pension Plan (Plan):*

The Plan is a single employer non-contributory plan, which covers all Maryland Transit Administration (Administration) employees covered by a collective bargaining agreement and all those management employees who were employed by the Baltimore Transit Company. In addition, employees who enter the management group as a result of a transfer from a position covered by a collective bargaining agreement maintain their participation. For the year ended June 30, 2003, the Administration's covered and total payroll was \$128,393,000. The Plan is administered and funded in compliance with the collective bargaining agreements, which established the Plan.

#### *Plan Description:*

The Plan provides retirement, normal and early, death and disability benefits. Members may retire with full benefits at age 65 with five years of credited service or age 52 with 30 years of credited service. The annual normal retirement benefit is 1.4% (1.3% prior to September 8, 2002) of final average compensation multiplied by credited service, with minimum and maximum benefit limitations. Participants are fully vested after five years of credited service.

As of June 30, 2003, membership in the Plan includes retirees and beneficiaries currently receiving benefits, terminated members entitled to, but not yet receiving benefits and current active members.

There were no investments in loans to or leases with parties related to the Plan. In addition, no investment in any one organization constituted 5% or more of the net plan assets available for pension benefits.

#### *Funding Policy:*

The Administration's required contributions are based on actuarial valuations. The entry age normal cost method is the actuarial cost method used to determine the employer's contribution rates and the actuarial accrued liability. All administrative costs of the Plan are paid by the Plan.

Employer contributions to the Plan totaling \$16,545,000 (12.9% of covered payroll) for fiscal year 2003 were made in accordance with actuarially determined contribution requirements based on an actuarial valuation performed as of June 30, 2003. This amount consisted of \$3,200,000 normal cost and \$13,345,000 amortization of the actuarial accrued liability (2.5% and 10.4%, respectively, of covered payroll).

The liquidation period for the actuarial accrued liabilities as provided by law, is 16 years from June 30, 2003.

Significant actuarial assumptions used to compute contribution requirements are the same as those used to compute the annual pension cost and net pension obligations. The computation of the annual required contribution for fiscal year 2003 was based on the same actuarial assumptions, benefit provisions, actuarial funding method, and other significant factors used to determine pension contribution requirements in the previous year.

#### *Annual Pension Cost and Net Pension Obligation:*

The Administration's annual pension costs for the fiscal years ending June 30, 2003, 2002, and 2001 were \$16,545,000, \$15,200,000 and \$14,820,000, respectively.

The Administration contributed 100% of the annual pension cost for each of the fiscal years ended June 30, 2003, 2002 and 2001 for the Plan. Accordingly, the Administration's net pension obligation was zero as of June 30, 2003, 2002 and 2001 for the Plan.

The fiscal year 2003 annual pension cost and net pension obligations were determined as a part of an actuarial valuation as of June 30, 2003. The significant actuarial assumptions listed below were used for the Plan.

Valuation method . . . . .	Entry Age Normal Cost Method
Cost method of valuing assets . . . . .	Smoothing
Rate of return on investments . . . . .	8.0% Compounded per Annum
Projected inflation rate . . . . .	5.0%
Rate of salary increase . . . . .	3.0% Compounded per Annum
Postretirement benefit increase . . . . .	3.0% of original benefit amount
Amortization method . . . . .	Level dollar annual installments
Remaining amortization period . . . . .	16 years from June 30, 2003 for prior UAAL
New amortization period . . . . .	24 years from June 30, 2003 for new UAAL
Status of period (Open or Closed) . . . . .	Closed

During fiscal year 2003, there were no changes in actuarial assumptions or benefit provisions from 2002 that significantly affected the valuation of the annual pension cost and net pension obligation. No significant changes in these assumptions are planned in the near term. Effective July 1, 2002, the Administration implemented two changes to the funding procedures: an increase in the asset smoothing factor from three to five years and an increase in the amortization period for funding future gains and losses to a 25 year period for each year's gain or loss.



*Plan Financial Statements:*

The Plan does not issue separate financial reports prepared in accordance with accounting principles generally accepted in the United States of America. Accordingly, financial statements for the Plan are presented below.

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**Maryland Transit Administration Pension Plan**  
**Statement of Fiduciary Net Assets**  
**June 30, 2003**

(Expressed in Thousands)

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Assets:	
Cash and cash equivalents . . . . .	\$ 496
Bonds . . . . .	21,739
Corporate equity securities . . . . .	47,605
Other receivables . . . . .	1,263
Total assets . . . . .	<u>71,103</u>
Liabilities:	
Accounts payable and accrued liabilities . . . . .	1,263
Total liabilities . . . . .	<u>1,263</u>
Net assets:	
Held in trust for pension benefits . . . . .	69,840
Total net assets . . . . .	<u>\$69,840</u>

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**Statement of Changes in Fiduciary Net Assets**  
**For the Year ended June 30, 2003**

(Expressed in thousands)

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Additions:	
Contributions:	
Employers . . . . .	\$16,545
Total contributions . . . . .	<u>16,545</u>
Investment earnings:	
Net appreciation in fair value of investment . . . . .	2,117
Interest . . . . .	392
Total investment earnings . . . . .	<u>2,509</u>
Total additions . . . . .	<u>19,054</u>
Deductions:	
Benefit payments . . . . .	14,170
Administrative expenses . . . . .	115
Total deductions . . . . .	<u>14,285</u>
Net increase in plan assets . . . . .	4,769
Net assets held in trust for pension benefits:	
July 1, 2002 . . . . .	65,071
June 30, 2003 . . . . .	<u>\$69,840</u>

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*Post Retirement Benefits:*

The State also provides, in accordance with State Merit System Laws, post employment health care benefits to retired employees and their dependents (generally employees who retired before July 1, 1984, employees who retired on or after July 1, 1984, with at least 5 years of creditable service and employees who receive disability retirement allowances or special death benefits). The State subsidizes approximately 50% to 85% of covered medical and hospitalization costs, depending on the type of insurance plan. The State assesses a surcharge for post employment health care benefits, which is based on health care insurance charges for current employees. During fiscal year 2003, these benefits paid amounted to \$125,209,000. Costs are recognized as they are paid. There are 31,080 participants currently receiving benefits.

### *Deferred Compensation Plan (Plan):*

The State offers its employees a deferred compensation plan (Plan) created in accordance with Internal Revenue Code Sections 457, 403(b), 401(a) and 401(k). The Plan, available to eligible State employees, permits participants to defer a portion of their salary until future years. Participation in the Plan is optional. The deferred compensation is not available to employees until termination, retirement, death or unforeseeable emergency. State law provides that the Governor appoint the nine member Board of Trustees of the State's Supplemental Retirement Systems. The Board is responsible for the implementation, maintenance and administration of the Plan.

The State of Maryland Match Plan and Trust was established by the State on July 1, 1999. The plan is designed to be a tax-qualified 401(a) defined contribution matching plan under Internal Revenue Code section 401(a). Under plan provisions, the State contributes to each participant's account an amount equal to each participant's contributions to the State's Supplemental Retirement Plans during the same plan year. For each fiscal year of the State beginning after June 30, 1999, the maximum amount contributed to this plan for each participant is \$500. A participant may receive more than this amount in matching contributions during a plan year, but may not exceed the maximum \$500 contribution for any State fiscal year. An employee's interest in his/her account is fully vested at all times. The State's contribution for the plan year ending December 31, 2002, was \$18,385,000. The Governor proposed and the State Legislature approved the elimination of the State's matching contribution to the Plan for each participant for the fiscal year beginning July 1, 2003. The match program continues to be established and funded in statute and without intervention will resume in fiscal year 2005, but it may be modified through legislative action in each future fiscal year.

### **17. Commitments:**

The State leases office space under various agreements that are accounted for as operating leases. Many of the agreements contain rent escalation clauses and renewal options. Rent expenditures for fiscal year 2003 were approximately \$58,512,000. Future lease commitments under these agreements as of June 30, 2003, are as follows (amounts expressed in thousands).

Years ending June 30,	Amounts
2004.....	\$ 55,015
2005.....	50,171
2006.....	43,087
2007.....	36,456
2008.....	31,037
2009-2013.....	85,862
2014-2018.....	8,117
2019-2023.....	5,406
Total.....	<u>\$315,151</u>

As of June 30, 2003, the State had commitments of approximately \$216,531,000 and \$9,321,000, respectively, for the completion of projects under construction and for service contracts.

As of June 30, 2003, the Department of Transportation and Maryland Transportation Authority had commitments of approximately \$3,141,697,000 and \$124,000,000, respectively, for construction of highway and mass transit facilities.

Approximately 44% of future expenditures related to the Department of Transportation commitments are expected to be reimbursed from proceeds of approved Federal grants when the actual costs are incurred. The remaining portion will be funded by other financial resources of the Department of Transportation.

The Department of Transportation, as lessor, leases space at various marine terminals, airport facilities and office space pursuant to various cancelable operating leases with scheduled rent increases. Minimum future rental revenues are as follows (amounts expressed in thousands).

Years Ending June 30,	Amounts
2004.....	\$102,765
2005.....	76,598
2006.....	72,367
2007.....	68,560
2008.....	62,407
2009 -2013.....	175,737
Total.....	<u>\$558,434</u>

The cost and accumulated depreciation of the assets as of June 30, 2003, are \$733,665,000 and \$220,320,000, respectively.

Total minimum future rental revenues do not include contingent rentals that may be received under certain concession leases on the basis of a percentage of the concessionaire's gross revenue in excess of stipulated minimums. Rental revenue was approximately \$101,556,000 for the year ended June 30, 2003, including contingent rentals of approximately \$986,000.

As of June 30, 2003, the Maryland State Lottery Agency had commitments of approximately \$91,124,000, for services to be rendered relating principally to the operation of the lottery game.

As of June 30, 2003, several enterprise fund loan programs within the Department of Business and Economic Development had committed to lend a total of \$40,630,000 in additional loans, i.e., the Maryland Economic Development Assistance Authority Fund, \$14,652,000, Maryland Economic Development Opportunities Program Fund, \$21,775,000, Smart Growth Economic Development Infrastructure Fund, \$3,601,000, Maryland Competitive Advantage Financing Fund, \$216,000, and Maryland Economic Adjustment Fund, \$386,000. The State Funded Loan Programs, an enterprise fund loan program, committed to provide \$31,104,000 in loans. The Community Development Administration, also an enterprise fund loan program, has \$235,185,000 of revenue bonds outstanding that are not included in the financial statements of the Administration because the bonds are not guaranteed by the State or any other program of the State or any political subdivision. The revenue bonds are secured solely by the individual multi-family project properties, related revenues, applicable credit enhancements or investments equal to the debt outstanding.

Pursuant to legislation enacted by the Maryland General Assembly in April, 1996, the Maryland Stadium Authority is required to pay \$2,400,000 per year into the Public School Construction Fund over ten years, subject to availability of funds, beginning in fiscal year 2001. On June 30, 2003, the Authority has available cash to contribute \$2,400,000 for fiscal year 2003.

As of June 30, 2003, the higher education fund had commitments of approximately \$488,814,000 for the completion of projects under construction.

## **18. Contingencies:**

The State is party to legal proceedings that normally occur in governmental operations. The legal proceedings are not, in the opinion of the Attorney General, likely to have a material, adverse impact on the financial position of the State as a whole.

As of June 30, 2003, economic development loan programs were contingently liable to financial institutions for \$5,847,000 for the repayment of loans for small businesses. Non-major enterprise funds were contingently liable as insurer of \$482,802,000 of \$1,143,361,000 mortgage loans made by public and private lenders. Non-major component units were contingently liable as insurers of \$58,381,000 of \$631,971,000 economic development and growth bonds issued by financial institutions.

As of June 30, 2003, there were approved economic development bonds pending settlement which were insured by non-major component units for \$5,580,000.

The State receives significant financial assistance from the U.S. Government. Entitlement to the resources is generally conditioned upon compliance with terms and conditions of the grant agreements and applicable federal regulations, including the expenditure of the resources for eligible purposes. Substantially all grants are subject to financial and compliance audits by the grantors. Any disallowances as a result of these audits become a liability of the fund which received the grant. As of June 30, 2003, the State estimates that no material liabilities will result from such audits.

## **19. Tobacco Settlement:**

Legislation enacted by the 1999 General Assembly established the Cigarette Restitution Fund for all revenues received from any judgment against or settlement with the tobacco industry. Expenditures from the fund are made by an appropriation in the annual State budget. The law provides that at least 50% of the appropriations shall be made for tobacco or health related purposes and the remaining appropriations may be for any public purpose. During the 2002 legislative session, legislation was enacted providing that for each of fiscal years 2003 through 2006, at least 25% of the appropriations shall be made for the Maryland Medical Assistance Program (Medicaid). During the 2003 legislative session, legislation was enacted requiring that .15% of the fund be appropriated for enforcing the escrow requirements for nonparticipating tobacco product manufacturers. Transfers of \$201,467,000 were made from the proceeds in the Cigarette Restitution Fund for fiscal year 2003 expenditure of appropriations.

As part of the Master Settlement Agreement between the states and the tobacco companies, Maryland's share during fiscal year 2003 was \$163,978,000. Pursuant to a settlement between the State and legal counsel resolving all disputes, \$30,000,000 was disbursed to legal counsel in fiscal year 2003.

It is estimated that the payments made to the State pursuant to the Master Settlement through fiscal year 2010 will total \$1.7 billion, of which \$149,873,000 will go to outside counsel. The actual amount paid each year, however, will reflect adjustments for inflation and cigarette shipment volume. In addition, the State expects to receive \$50,060,000 during that same period pursuant to an award for attorney fees by the national arbitration panel.

## **20. Landfill Closure and Postclosure Care Costs:**

State and Federal laws require the Maryland Environmental Service (the Service) to place a final cover on the Midshore Regional Landfill (Midshore), which is expected to close in October 2008, and the Easton Landfill (Easton), which is filled to capacity and in the process of being closed, and to perform certain maintenance and monitoring functions at the landfill sites for thirty years after closure. Although closure and post-closure care costs at Midshore will be paid near or after the date the landfill stops accepting waste, the Service accrues a portion of these closure and post-closure care costs as a liability based on the estimated capacity of the landfill that has been used to date, which was 73% as of June 30, 2003. The Service recognized a liability for Easton equal to the estimated total current cost of closure and post-closure care that has not been paid. A \$6,139,000 liability is included in other liabilities in the accompanying balance sheet of the Service. Total closure and post-closure care costs are currently estimated to be approximately \$8,391,000 as determined through engineering studies. Actual costs may be higher due to inflation.

Under recently promulgated federal regulations, the Service has satisfied its financial assurance requirements based upon the local government financial ratio tests of the project participants as of June 30, 2002. The Service expects to satisfy these requirements as of June 30, 2003, using the same criteria.

REQUIRED  
SUPPLEMENTARY INFORMATION

## STATE OF MARYLAND

**Schedule of Revenues, Expenditures and Encumbrances, and Changes in Fund Balances - Budget and Actual - Budgetary General, Special,  
and Federal Funds for the Year Ended June 30, 2003**  
(Expressed in Thousands)

	General Fund			Special Fund			Federal Fund		
	Budget Amounts		Variance Positive (Negative)	Budget Amounts		Variance Positive (Negative)	Budget Amounts		Variance Positive (Negative)
	Original Budget	Final Budget		Original Budget	Final Budget		Original Budget	Final Budget	
<b>Revenues:</b>									
Income taxes .....	\$ 5,374,264	\$ 5,002,651	\$ (10,639)	\$ 94,159	\$ 104,373	\$ 91,985	\$ 5,186,037	\$ 5,691,478	\$ (491,900)
Sales and use taxes .....	2,767,476	2,709,464	(12,403)	20,300	22,900	23,101	5,186,037	5,691,478	(491,900)
Other taxes .....	807,500	791,644	12,515	1,743,302	1,865,099	1,884,881			
Licenses and fees .....	122,358	134,100	17,540	561,287	580,618	532,659			
Charges for services .....	162,721	176,373	7,117	435,811	665,534	717,811			
Interest and other investment income .....	70,259	35,877	6,671	26,375	13,679	16,337			
Other .....	512,329	516,447	186,162	869,677	1,370,508	850,026			
Federal revenue .....		33,356	33,356	10,517	48,851	45,626			
Total revenues .....	9,816,907	9,366,556	240,319	3,761,428	4,671,562	4,162,426			
<b>Expenditures and encumbrances by major function:</b>									
Payments of revenue to civil divisions of the State .....	149,901	150,316	54						
Public debt .....	94,020	92,684	1,336	311,357	736,235	727,385			
Legislative .....	65,211	63,526	7,199						
Judicial review and legal .....	361,119	354,535	10,518	21,806	49,143	43,415	3,447	4,175	366
Executive and administrative control .....	151,374	147,116	15,902	75,682	103,598	89,842	105,955	181,670	61,121
Financial and revenue administration .....	171,400	159,876	2,952	68,343	72,497	68,111			
Budget and management .....	70,165	65,866	21,036	19,183	20,133	14,722			
Retirement and pension .....				29,794	30,309	24,854			
General services .....	57,410	55,033	2,260	1,876	2,300	1,772	1,141	720	6
Transportation and highways .....				2,408,740	2,521,772	2,415,001	874,472	761,435	50,441
Natural resources and recreation .....	93,531	90,272	6,634	146,623	148,263	106,067	31,002	33,217	10,227
Agriculture .....	38,853	37,225	5,646	35,695	53,256	44,630	2,453	5,728	2,923
Health, hospitals and mental hygiene .....	2,838,978	2,816,428	3,904	229,611	362,227	309,541	2,126,139	2,333,175	25,856
Human resources .....	482,793	502,929	6,165	74,498	90,073	85,602	1,037,513	1,096,440	102,973
Labor, licensing and regulation .....	30,635	30,496	1,888	12,526	18,411	11,291	154,542	161,040	20,061
Public safety and correctional services .....	795,077	795,794	7,113	121,903	133,895	111,761	12,597	16,007	1,237
Public education .....	4,666,886	4,579,765	84,293	101,038	191,013	172,741	783,263	932,750	223,317
Housing and community development .....	44,465	43,442	8,983	72,306	79,729	44,198	184,186	184,186	45,960
Business and economic development .....	86,535	82,676	9,541	91,767	115,792	55,446	685	875	140
Environment .....	64,335	62,476	16,559	328,686	330,974	71,293	29,988	34,763	12,055
Juvenile services .....	176,564	164,555	1,121	257	257	115	15,426	15,426	1,261
State police .....	237,075	233,712	94,110	57,713	59,660	56,884	1,102	107,745	16,397
State reserve fund .....	181,029	181,029							
Reversions .....	(46,000)	(30,000)	(30,000)						
Total expenditures and encumbrances ..	10,811,356	10,681,087	277,214	4,209,404	5,119,537	4,454,671	5,363,911	5,869,352	574,341
Excess of revenues over (under) expenditures .....	(994,449)	(1,314,531)	517,533	(447,976)	(447,975)	(292,245)	(177,874)	(177,874)	82,441



STATE OF MARYLAND

**Reconciliation of the Budgetary General and Special Fund, Fund Balances  
to the GAAP General and Special Revenue Fund, Fund Balances  
June 30, 2003**

(Expressed in Thousands)

	General	Special
Amount in budgetary funds, fund balance (page 89) . . . . .	\$ 814,028	\$896,935
Budgetary special funds reclassified to the general fund . . . . .	363,470	(363,470)
Budgetary special funds reclassified to other funds . . . . .		(356,797)
Other non-budgetary funds reclassified to governmental funds . . . . .	52,471	3,005
Total of budgetary fund balances reclassified into the governmental funds fund structure . . . . .	1,229,969	179,673
Accounting principle differences:		
Assets recognized in the governmental funds financial statements not recognized for budgetary purposes:		
Cash . . . . .	41,818	14,517
Investments . . . . .	8,827	
Taxes receivable . . . . .		3,227
Intergovernmental receivables . . . . .	(6,990)	
Other accounts receivable . . . . .	37,367	(1,340)
Loans and notes receivable . . . . .	45	
Inventories . . . . .	21,705	51,399
Liabilities recognized in the governmental funds financial statements not recognized for budgetary purposes:		
Accounts payable and accrued liabilities . . . . .	(105,998)	(10,521)
Accounts payable to political subdivisions . . . . .	(42,530)	(775)
Deferred revenue . . . . .	9,819	
Accrued self insurance costs . . . . .	(9,364)	
Financial statement governmental funds' fund balances, June 30, 2003 (page 30) . . . . .	\$1,184,668	\$236,180

See accompanying Notes to Required Supplementary Information.



STATE OF MARYLAND

**Required Supplemental Schedule of Funding Progress for  
Pension and Retirement System**  
(Expressed in Thousands)

Actuarial Valuation Date June 30,	Actuarial Value of Plan Assets	Actuarial Accrued Liability (AAL) Entry Age	(Unfunded AAL) /Excess of Assets over AAL	Funded Ratio	Covered Payroll (1)	(Unfunded AAL) /Excess as a Percentage of Covered Payroll (2)
<b>TEACHERS RETIREMENT AND PENSION SYSTEM</b>						
2003	\$ 19,626,676	\$ 21,152,063	\$ (1,525,387)	92.79%	\$ 4,522,202	(33.73) %
2002	19,424,000	21,117,046	(1,693,046)	91.98	4,323,053	(39.16)
2001	19,182,750	20,126,943	(944,193)	95.31	3,994,201	(23.64)
2000	18,419,539	18,994,294	(574,755)	96.97	3,729,845	(15.41)
1999	16,634,932	18,036,251	(1,401,319)	92.23	3,550,614	(39.47)
1998	14,934,503	17,452,181	(2,517,678)	85.57	3,319,260	(75.85)
<b>EMPLOYEES RETIREMENT AND PENSION SYSTEM</b>						
2003	\$ 11,244,008	\$ 12,083,197	\$ (839,189)	93.05%	\$ 3,424,054	(24.51) %
2002	11,162,265	11,385,749	(223,484)	98.04	3,356,671	(6.66)
2001	11,021,958	10,789,907	232,051	102.15	3,084,859	7.52
2000	10,593,917	9,907,683	686,234	106.93	2,829,250	24.25
1999	9,557,556	9,203,218	354,338	103.85	2,613,659	13.56
1998	8,621,081	8,877,652	(256,571)	97.11	2,448,181	(10.48)
<b>STATE POLICE RETIREMENT SYSTEM</b>						
2003	\$ 1,285,201	\$ 1,062,383	\$ 222,818	120.97%	\$ 80,839	275.63 %
2002	1,300,402	1,030,575	269,827	126.18	83,142	324.54
2001	1,305,556	993,847	311,709	131.36	79,383	392.66
2000	1,269,418	911,273	358,145	139.30	79,388	451.13
1999	1,150,559	850,041	300,518	135.35	75,602	397.50
1998	1,033,274	739,074	294,200	139.81	70,663	416.34
<b>JUDGES RETIREMENT SYSTEM</b>						
2003	\$ 240,207	\$ 279,008	\$ (38,801)	86.09%	\$ 33,167	(116.99) %
2002	234,558	267,532	(32,974)	87.67	31,824	(103.61)
2001	229,022	254,913	(25,891)	89.84	30,554	(84.74)
2000	216,374	236,446	(20,072)	91.51	30,147	(66.58)
1999	192,909	231,394	(38,485)	83.37	29,577	(130.12)
1998	170,953	220,136	(49,183)	77.66	25,553	(192.47)
<b>LAW ENFORCEMENT OFFICERS' PENSION SYSTEM</b>						
2003	\$ 225,111	\$ 382,287	\$ (157,176)	58.89%	\$ 69,470	(226.25) %
2002	191,100	312,058	(120,958)	61.24	65,916	(183.50)
2001	165,678	290,504	(124,826)	57.03	60,438	(206.54)
2000	140,034	214,822	(74,788)	65.19	50,302	(148.68)
1999	102,040	140,677	(38,637)	72.53	36,435	(106.04)
1998	83,430	115,534	(32,104)	72.21	30,512	(105.22)
<b>LOCAL FIRE AND POLICE SYSTEM</b>						
2003	\$ 10,262	\$ 15,663	\$ (5,401)	65.52%	\$ 4,686	(115.26) %
2002	10,938	18,324	(7,386)	59.69	7,188	(102.75)
2001	9,814	13,828	(4,014)	70.97	5,601	(71.67)
2000	10,099	15,349	(5,250)	65.80	6,938	(75.67)
1999	8,583	13,799	(5,216)	62.20	6,530	(79.88)
1998	7,114	12,358	(5,244)	57.57	6,288	(83.40)
<b>TOTAL OF ALL PLANS</b>						
2003	\$ 32,631,465	\$ 34,974,601	\$ (2,343,136)	93.30%	\$ 8,134,418	(28.81) %
2002	32,323,263	34,131,284	(1,808,021)	94.70	7,867,794	(22.98)
2001	31,914,778	32,469,942	(555,164)	98.29	7,255,036	(7.65)
2000	30,649,381	30,279,867	369,514	101.22	6,725,870	5.49
1999	27,646,579	28,475,380	(828,801)	97.09	6,312,417	(13.13)
1998	24,850,355	27,416,935	(2,566,580)	90.64	5,900,457	(43.50)

(1) Covered payroll includes the payroll cost of those participants for which the State pays the retirement contribution but does not pay the participants' payroll cost. Starting with the 7/1/98 disclosure, covered payroll was reported using an adjusted payroll figure. Starting with the June 30, 2002, disclosure, the covered payroll has been restated to show actual salaries reported for valuation purposes, prior to any adjustments.

(2) Percentage of (Unfunded AAL)/ excess assets over AAL as a percentage of covered payroll.

STATE OF MARYLAND

**Required Supplemental Schedule of Funding Progress for  
Maryland Transit Administration Pension Plan**  
(Expressed in Thousands)

Actuarial Valuation Date June 30,	Actuarial Value of Plan Assets	Actuarial Accrued Liability Entry Age	Unfunded Actuarial Accrued Liability	Funded Ratio	Covered Payroll	Unfunded AAL as a Percentage of Covered Payroll
2003	\$86,642	\$234,460	\$147,818	37.0%	\$128,393	115.1%
2002	81,617	210,013	128,396	38.9	134,434	95.5
2001	76,700	203,628	126,928	37.7	110,249	115.1
2000	71,566	199,455	127,889	35.9	102,923	124.3
1999	60,829	181,064 (1)	120,235	33.6	104,569	115.0
1998	51,208	167,330	116,122	30.6	98,814	117.5
1997	42,739	172,076	129,337	24.8	95,333	135.7
1996	34,568	141,381	106,813	24.5	95,550	111.8
1995	24,470	137,826	113,356	17.8	92,445	122.6
1994	17,572	126,351	108,779	13.9	88,491	122.9

(1) Fiscal year 1999 has been restated to include changes pertaining to the Collective Bargaining Agreement.

**Required Supplemental Schedule of Employer Contributions for  
Maryland Transit Administration Pension Plan**  
(Expressed in Thousands)

Year Ended June 30,	Annual Required Contribution	Percentage Contributed
2003	\$16,545	100%
2002	15,200	100
2001	14,820	100
2000	13,721	100
1999	13,103	100
1998	13,902	100
1997	11,502	100
1996	11,918	100
1995	11,323	100
1994	8,452	100

# STATE OF MARYLAND

## Notes to Required Supplementary Information For the Year Ended June 30, 2003

### 1. Budgeting and Budgetary Control:

The Maryland Constitution requires the Governor to submit to the General Assembly an annual balanced budget for the following fiscal year. This budget is prepared and adopted for the General Fund, which includes all transactions of the State, unless otherwise directed to be included in another fund and the Special Fund, which includes the transportation activities of the State, fishery and wildlife funds, shared taxes and payments of debt service on general obligation bonds. In contrast, the GAAP special revenue fund includes only the operations (other than debt service and pension activities) of the Maryland Department of Transportation. The budgetary Federal fund revenue and expenditures are included in the GAAP General and Special Funds as federal revenues and expenditures by function. An annual budget is also prepared for the Federal Fund, which accounts for substantially all grants from the Federal government, and the current unrestricted and restricted funds of the Universities and Colleges. In addition to the annual budget, the General Assembly adopts authorizations for the issuance of general obligation bonds. The expenditures of the resources obtained thereby are accounted for in the capital projects fund.

All State budgetary expenditures for the general, special and federal funds are made pursuant to appropriations in the annual budget, as amended from time to time, by budget amendments. The legal level of budgetary control is at the program level for the general, special and federal funds. State governmental departments and independent agencies may, with the Governor's approval, amend the appropriations by program within the budgetary general fund, provided they do not exceed their total general fund appropriations as contained within the annual budget. Increases in the total general fund appropriations must be approved by the General Assembly. For the fiscal year ended June 30, 2003, the General Assembly approved a net increase in General Fund appropriations of \$86,421,000. Appropriations for programs funded in whole or in part from the special or federal funds may permit expenditures in excess of original special or federal fund appropriations to the extent that actual revenues exceed original budget estimates and such additional expenditures are approved by the Governor. Unexpended appropriations from the general fund may be carried over to succeeding years to the extent of encumbrances, with all other appropriations lapsing as of the end of the fiscal year. Unexpended appropriations from special and federal funds may be carried over to the extent of (a) available resources, and (b) encumbrances. The State's accounting system is maintained by the Comptroller in compliance with State Law and in accordance with the State's Budgetary Funds. It controls expenditures at the program level to ensure legal compliance. The "Agency Appropriation Unencumbered Balance Report," which is available for public inspection at the Office of the Comptroller, provides a more comprehensive accounting of activity on the basis of budgeting at the legal level of budgetary control.

The original and amended budget adopted by the General Assembly for the general, special and federal funds is presented in the Schedule of Revenues, Expenditures and Encumbrances, and Changes in Fund Balances - Budget and Actual - for the year ended June 30, 2003. The State's budgetary fund structure and the basis of budgeting, which is the modified accrual basis with certain exceptions, differs from that utilized to present financial statements in conformity with generally accepted accounting principles. The budgetary system's principal departures from the modified accrual basis are the classification of the State's budgetary funds and the timing of recognition of certain revenues and expenditures. A summary of the effects of the fund structure differences and exceptions to the modified accrual basis of accounting, as of June 30, 2003, is provided in the "Reconciliation of the Budgetary General and Special Fund, Fund Balances to the GAAP General and Special Revenue Fund, Fund Balances" immediately following the budgetary schedule.



## COMBINING FINANCIAL STATEMENTS

STATE OF MARYLAND  
**Non-Major Governmental Funds**

**Debt Service Funds**

General Obligation Bonds, Debt Service Fund: Transactions related to resources obtained and used for the payment of interest and principal on general long-term debt obligations are accounted for in the general obligation bonds debt service fund.

Transportation Bonds, Debt Service Fund: Transactions related to resources obtained and used for the payment of interest and principal on transportation long-term debt obligations are accounted for in the transportation bonds debt service fund.

**Capital Projects Fund**

Transactions related to resources obtained and used for the acquisition, construction or improvement of certain capital facilities, including those provided to political subdivisions and other public organizations, are accounted for in the capital projects fund. Such resources are derived principally from proceeds of general obligation bond issues, federal grants and operating transfers from the State's general fund. The State enters into long-term contracts for construction of major capital projects and records the related commitments as encumbrances.

STATE OF MARYLAND

**Combining Balance Sheet**

**Non-major Governmental Funds**

**June 30, 2003**

(Expressed in Thousands)

	Debt Service Funds		Capital	Total
	General	Transportation	Projects	Non-major
	Obligation	Bonds	Fund	Governmental
	Bonds			Funds
Assets:				
Cash and cash equivalents . . . . .	\$20,296			\$ 20,296
Cash and cash equivalents - restricted . . . . .		\$2,544		2,544
Cash with fiscal agent - restricted . . . . .	3,580	1,302		4,882
Investments . . . . .		225		225
Taxes receivable, net . . . . .	6,799			6,799
Other receivables . . . . .	583			583
Due from other funds . . . . .			\$332,982	332,982
Loans and notes receivable, net . . . . .	13,479			13,479
Loans and notes receivable - restricted . . . . .			8,828	8,828
Total assets . . . . .	<u>\$44,737</u>	<u>\$4,071</u>	<u>\$341,810</u>	<u>\$390,618</u>
Liabilities:				
Vouchers payable . . . . .			\$ 42,647	\$ 42,647
Accounts payable and accrued liabilities . . . . .			21,787	21,787
Deferred revenue . . . . .	\$ 156			156
Matured bonds and interest coupons payable . . . . .	2,668	\$1,302		3,970
Total liabilities . . . . .	<u>2,824</u>	<u>1,302</u>	<u>64,434</u>	<u>68,560</u>
Fund balances:				
Reserved for:				
Encumbrances . . . . .			431,549	431,549
Loans and notes receivable . . . . .	12,947		8,828	21,775
Debt service . . . . .	920			920
Unreserved:				
Undesignated (deficit) . . . . .	28,046	2,769	(163,001)	(132,186)
Total fund balances . . . . .	<u>41,913</u>	<u>2,769</u>	<u>277,376</u>	<u>322,058</u>
Total liabilities and fund balances . . . . .	<u>\$44,737</u>	<u>\$4,071</u>	<u>\$341,810</u>	<u>\$390,618</u>



STATE OF MARYLAND

**Combining Statement of Revenues,  
Expenditures, Other Sources and Uses of  
Financial Resources and Changes in Fund Balances**

**Non-major Governmental Funds**

**For the Year Ended June 30, 2003**

(Expressed in Thousands)

	Debt Service Funds		Capital	Total
	General	Transportation	Projects	Non-major
	Obligation Bonds	Bonds	Fund	Governmental
				Funds
Revenues:				
Other taxes . . . . .	\$284,753			\$ 284,753
Interest and other investment income . . . . .	564	\$ (61)	\$ 2,695	3,198
Other . . . . .	58	757		815
Total revenues . . . . .	285,375	696	2,695	288,766
Expenditures:				
Education . . . . .			203,818	203,818
Aid to higher education . . . . .			309,568	309,568
Intergovernmental . . . . .			230,654	230,654
Capital outlays . . . . .			128,790	128,790
Debt service:				
Principal retirement . . . . .	326,694	95,165		421,859
Interest . . . . .	169,287	34,414		203,701
Bond issuance costs . . . . .			1,784	1,784
Total expenditures . . . . .	495,981	129,579	874,614	1,500,174
Deficiency of revenues under expenditures . . . . .	(210,606)	(128,883)	(871,919)	(1,211,408)
Other sources (uses) of financial resources :				
Bonds issued and premiums . . . . .			814,881	814,881
Refunding bonds issued and premiums . . . . .			411,775	411,775
Payments to refunded bond escrow agent . . . . .	(410,878)			(410,878)
Transfers in . . . . .	626,065	127,137	84,208	837,410
Transfers out . . . . .	(23)		(488,015)	(488,038)
Total other sources of financial resources . . . . .	215,164	127,137	822,849	1,165,150
Net change in fund balances . . . . .	4,558	(1,746)	(49,070)	(46,258)
Fund balances, July 1, 2002 . . . . .	37,355	4,515	326,446	368,316
Fund balances, June 30, 2003 . . . . .	\$ 41,913	\$ 2,769	\$277,376	\$ 322,058

## STATE OF MARYLAND

### **Non-major Enterprise Funds**

Transactions related to commercial types of activities operated by the State are accounted for in the enterprise funds. The non-major enterprise funds consist of the economic development insurance programs of the Department of Housing and Community Development and State Use Industries, which utilizes inmate labor from State correctional institutions to manufacture goods, wares and merchandise to be sold to State agencies, political subdivisions and charitable, civic, educational, fraternal or religious associations or institutions.

STATE OF MARYLAND

**Combining Statement of Net Assets**

**Non-major Enterprise Funds**

**June 30, 2003**

(Expressed in Thousands)

	Economic Development Insurance Programs	State Use Industries	Total Non-major Enterprise Funds
Assets:			
Current assets:			
Cash and cash equivalents .....		\$ 10	\$ 10
Other accounts receivable .....		5,329	5,329
Due from other funds .....	\$ 3,337	12,131	15,468
Inventories .....		6,214	6,214
Loans and notes receivable, net .....	1,324		1,324
Other assets .....	3,332	368	3,700
Current restricted assets:			
Due from other funds .....	94,871		94,871
Total current assets .....	102,864	24,052	126,916
Non-current assets:			
Investments .....	867		867
Loans and notes receivable, net .....	651		651
Other assets .....		85	85
Capital assets (net of accumulated depreciation):			
Structures and improvements .....		418	418
Equipment .....		4,408	4,408
Infrastructure .....		97	97
Total non-current assets .....	1,518	5,008	6,526
Total assets .....	104,382	29,060	133,442
Liabilities:			
Current liabilities:			
Accounts payable and accrued liabilities .....	1,510	2,269	3,779
Accrued insurance and loan losses .....	24,394		24,394
Other liabilities .....	105	624	729
Deferred revenue .....	2,052	668	2,720
Total current liabilities .....	28,061	3,561	31,622
Non-current liabilities:			
Other liabilities .....	209	331	540
Total non-current liabilities .....	209	331	540
Total liabilities .....	28,270	3,892	32,162
Net Assets:			
Invested in capital assets, net of related debt .....		4,923	4,923
Restricted for insurance programs .....	94,871		94,871
Unrestricted (deficit) .....	(18,759)	20,245	1,486
Total net assets .....	\$76,112	\$25,168	\$101,280

STATE OF MARYLAND

**Combining Statement of Revenues, Expenses  
and Changes in Fund Net Assets  
Non-major Enterprise Funds  
For the Year Ended June 30, 2003**

(Expressed in Thousands)

	Economic Development Insurance Programs	State Use Industries	Total Non-major Enterprise Funds
Operating revenues:			
Charges for services and sales .....	\$ 4,608	\$41,137	\$ 45,745
Interest on loan income .....	571		571
Other .....	9		9
Total operating revenues .....	5,188	41,137	46,325
Operating expenses:			
Cost of sales and services .....		32,081	32,081
General and administrative .....	3,157	4,961	8,118
Depreciation and amortization .....		1,136	1,136
Reduction in provision for insurance and loan losses .....	(219)		(219)
Total operating expenses .....	2,938	38,178	41,116
Operating income .....	2,250	2,959	5,209
Nonoperating revenues (expenses):			
Unrestricted investment income .....	3		3
Restricted investment income .....	1,964		1,964
Other .....	28	(10)	18
Total nonoperating revenues (expenses) .....	1,995	(10)	1,985
Income before transfers .....	4,245	2,949	7,194
Transfers out .....	(10,000)	(2,000)	(12,000)
Change in net assets .....	(5,755)	949	(4,806)
Total net assets - beginning .....	81,867	24,219	106,086
Total net assets - ending .....	\$76,112	\$25,168	\$101,280

STATE OF MARYLAND

**Combining Statement of Cash Flows**

**Non-major Enterprise Funds**

**For the Year Ended June 30, 2003**

(Expressed in Thousands)

	Economic Development Insurance Programs	State Use Industries	Total Non-major Enterprise Funds
Cash flows from operating activities:			
Receipts from customers . . . . .	\$ 4,124	\$42,295	\$46,419
Payments to suppliers . . . . .		(27,016)	(27,016)
Payments to employees . . . . .	(2,587)	(10,422)	(13,009)
Other receipts (payments) . . . . .	6,327	(1,562)	4,765
Net cash provided by operating activities . . . . .	7,864	3,295	11,159
Cash flows from noncapital financing activities:			
Transfers out . . . . .		(2,000)	(2,000)
Net cash used by noncapital financing activities . . . . .		(2,000)	(2,000)
Cash flows from capital and related financing activities:			
Acquisition of capital assets . . . . .		(1,295)	(1,295)
Net cash used in capital and related financing activities . . . . .		(1,295)	(1,295)
Cash flows from investing activities:			
Interest on investments . . . . .	2,112		2,112
Transfers out . . . . .	(10,000)		(10,000)
Other . . . . .	24		24
Net cash provided by investing activities . . . . .	(7,864)		(7,864)
Net change in cash and cash equivalents . . . . .	-	-	-
Balance - beginning of the year . . . . .		10	10
Balance - end of the year . . . . .	\$ -	\$ 10	\$ 10
Reconciliation of operating income to net cash provided by operating activities:			
Operating income . . . . .	\$2,250	\$ 2,959	\$5,209
Adjustments to reconcile operating income to net cash provided by operating activities:			
Depreciation and amortization . . . . .		1,136	1,136
Effect of changes in assets and liabilities:			
Other accounts receivable . . . . .		1,157	1,157
Due from other funds . . . . .	8,031	(1,562)	6,469
Inventories . . . . .		250	250
Loans and notes receivable . . . . .	(614)		(614)
Other assets . . . . .	1,885	(52)	1,833
Accounts payable and accrued liabilities . . . . .	(20)	370	350
Accrued insurance on loan losses . . . . .	(3,072)		(3,072)
Deferred revenue . . . . .	(539)	(967)	(1,506)
Other liabilities . . . . .	(57)	4	(53)
Net cash provided by operating activities . . . . .	\$ 7,864	\$ 3,295	\$11,159

## STATE OF MARYLAND

### **Fiduciary Funds**

The Pension and Other Employee Benefits Trust Funds include the State Retirement and Pension System of Maryland, the Maryland Transit Administration Pension Plan, and the Deferred Compensation Plan. The Trust Funds reflect the transactions, assets, liabilities and fund equities of the plans administered by the State and the Maryland Transit Administration and are accounted for using the flow of economic resources measurement focus. The Deferred Compensation Plan, which is included with a year end of December 31, accounts for participant earnings deferred in accordance with Internal Revenue Code Sections 457, 403(b), 401(a), and 401(k). Amounts deferred are invested and are not subject to federal income taxes until paid to participants upon termination or retirement from employment, death or for an unforeseeable emergency.

The agency funds are custodial in nature and do not present the results of operations or have a measurement focus. The State uses agency funds to account for the receipt and disbursement of patient and prisoner accounts, various taxes collected by the State for distribution to the Federal government and political subdivisions and amounts withheld from employees' payroll.

## STATE OF MARYLAND

**Combining Statement of Fiduciary Net Assets**  
**Pension and Other Employee Benefits Trust Funds**

**June 30, 2003**

(Expressed in Thousands)

	Retirement and Pension System of Maryland	Maryland Transit Administration Pension Plan	Deferred Compensation Plan December 31, 2002	Total
<b>Assets:</b>				
Cash and cash equivalents . . . . .	\$ 2,436,697	\$ 496	\$ 4,110	\$ 2,441,303
Investments, at fair value:				
U.S. Treasury and agency obligations . . . . .	930,513			930,513
Bonds . . . . .	1,809,812	21,739		1,831,551
Corporate equity securities . . . . .	5,864,740	47,605		5,912,345
Mortgage related securities . . . . .	1,519,523			1,519,523
Mutual funds . . . . .	11,630,455		874,856	12,505,311
Guaranteed investment contracts . . . . .			420,345	420,345
Real estate . . . . .	771,507			771,507
Annuity contracts . . . . .	136,774		166,964	303,738
Investment held by borrowers under securities lent with cash collateral .	2,224,908			2,224,908
Total investments . . . . .	24,888,232	69,344	1,462,165	26,419,741
Other receivables . . . . .	405,091	1,263	7,557	413,911
Collateral for lent securities . . . . .	2,291,759			2,291,759
Total assets . . . . .	30,021,779	71,103	1,473,832	31,566,714
<b>Liabilities:</b>				
Accounts payable and accrued liabilities . . . . .	1,002,198	1,263	443	1,003,904
Collateral obligation for lent securities . . . . .	2,291,759			2,291,759
Total liabilities . . . . .	3,293,957	1,263	443	3,295,663
<b>Net assets:</b>				
Held in trust for :				
Pension benefits . . . . .	26,727,822	69,840		26,797,662
Deferred compensation benefits . . . . .			1,473,389	1,473,389
Total net assets . . . . .	\$26,727,822	\$69,840	\$1,473,389	\$28,271,051



STATE OF MARYLAND

**Combining Statement of Changes in Plan Net Assets**

**Pension and Other Employee Benefits Trust Funds**

**For the Year Ended June 30, 2003**

(Expressed in Thousands)

	Retirement and Pension System of Maryland	Maryland Transit Administration Pension Plan	Deferred Compensation Plan December 31, 2002	Total
Additions:				
Contributions:				
Employers .....	\$ 226,344	\$16,545	\$ 18,385	\$ 261,274
Members .....	207,584		127,646	335,230
Sponsors .....	380,556			380,556
Total contributions .....	814,484	16,545	146,031	977,060
Investment earnings:				
Net appreciation (depreciation) in fair value of investments .....	107,467	2,117	(189,001)	(79,417)
Interest .....	445,572	392	30,477	476,441
Dividends .....	245,493			245,493
Real estate operating net earnings .....	31,016			31,016
Net change in annuity reserves .....			3,095	3,095
Total investment gain (loss) .....	829,548	2,509	(155,429)	676,628
Less investment expense .....	72,801			72,801
Net investment gain (loss) .....	756,747	2,509	(155,429)	603,827
Total additions (reductions) .....	1,571,231	19,054	(9,398)	1,580,887
Deductions:				
Benefit payments .....	1,474,257	14,170	112,948	1,601,375
Refunds .....	16,310			16,310
Administrative expenses .....	21,352	115	5,408	26,875
Total deductions .....	1,511,919	14,285	118,356	1,644,560
Change in net assets .....	59,312	4,769	(127,754)	(63,673)
Net assets held in trust for pension benefits:				
July 1, 2002 .....	26,586,896	65,071	1,601,143	28,253,110
Net effect of accounting change .....	81,614			81,614
June 30, 2003 .....	\$26,727,822	\$69,840	\$1,473,389	\$28,271,051

# STATE OF MARYLAND

## Combining Statement of Fiduciary Net Assets Retirement and Pension System of Maryland

June 30, 2003

(Expressed in Thousands)

	Teachers' Retirement and Pension Systems	Employees' Retirement and Pension Systems	Judges' Retirement System	State Police Retirement System	Local Fire and Police System	Law Enforcement Officers' Pension System	Total
<b>Assets:</b>							
Cash and cash equivalents . . . . .	\$ 1,468,283	\$ 832,173	\$ 22,275	\$ 89,779	\$ 2,115	\$ 22,072	\$ 2,436,697
Investments, at fair value . . . . .	15,073,495	8,544,988	175,032	921,748	6,802	166,167	24,888,232
Other receivables . . . . .	194,743	197,456	1,604	7,795	59	3,434	405,091
Collateral for lent securities . . . . .	1,440,901	776,035	10,747	47,597	405	16,074	2,291,759
Total assets . . . . .	18,177,422	10,350,652	209,658	1,066,919	9,381	207,747	30,021,779
<b>Liabilities:</b>							
Accounts payable and accrued liabilities . . . . .	628,159	338,725	5,136	22,982	189	7,007	1,002,198
Collateral obligation for lent securities . . . . .	1,440,901	776,035	10,747	47,597	405	16,074	2,291,759
Total liabilities . . . . .	2,069,060	1,114,760	15,883	70,579	594	23,081	3,293,957
<b>Net Assets:</b>							
Held in trust for pension benefits . . . . .	\$16,108,362	\$9,235,892	\$193,775	\$996,340	\$8,787	\$184,666	\$26,727,822

# STATE OF MARYLAND

## Combining Statement of Changes in Plan Net Assets Retirement and Pension System of Maryland

For the Year Ended June 30, 2003

(Expressed in Thousands)

	Teachers' Retirement and Pension Systems	Employees' Retirement and Pension Systems	Judges' Retirement System	State Police Retirement System	Local Fire and Police System	Law Enforcement Officers' Pension System	Total
<b>Additions:</b>							
Contributions:							
Employers .....	\$ 13,432	\$ 167,241	\$ 14,652	\$ 4,850	\$ 822	\$ 25,347	\$ 226,344
Members .....	112,617	83,855	1,479	6,694		2,939	207,584
Sponsors .....	374,787	5,570	199				380,556
Total contributions .....	500,836	256,666	16,330	11,544	822	28,286	814,484
<b>Investment earnings:</b>							
Net increase (decrease) in fair value of investments .....	90,724	31,086	(1,846)	(13,308)	(535)	1,346	107,467
Interest .....	278,871	151,403	2,282	10,272	114	2,630	445,572
Dividends .....	141,333	86,330	2,486	13,984	310	1,050	245,493
Real estate operating net earnings .....	18,387	10,746	259	1,422	7	195	31,016
Total investment income (loss) .....	529,315	279,565	3,181	12,370	(104)	5,221	829,548
Less investment expense .....	44,752	24,925	443	2,236	16	429	72,801
Net investment income (loss) .....	484,563	254,640	2,738	10,134	(120)	4,792	756,747
Total additions .....	985,399	511,306	19,068	21,678	702	33,078	1,571,231
<b>Deductions:</b>							
Benefit payments .....	911,059	481,265	17,334	54,046	600	9,953	1,474,257
Refunds .....	4,546	11,351		361		52	16,310
Administrative expenses .....	12,917	7,353	149	798	6	129	21,352
Net transfers .....	582	4,455	1	(15)	636	(5,659)	
Total deductions .....	929,104	504,424	17,484	55,190	1,242	4,475	1,511,919
Change in net assets .....	56,295	6,882	1,584	(33,512)	(540)	28,603	59,312
Net assets held in trust for pension benefits:							
July 1, 2002 .....	16,052,072	9,147,398	192,191	1,029,852	9,327	156,056	26,586,896
Net effect of accounting change .....		81,614					81,614
June 30, 2003 .....	\$16,108,367	\$9,235,894	\$193,775	\$ 996,340	\$8,787	\$184,659	\$26,727,822

STATE OF MARYLAND

**Combining Statement of Fiduciary Net Assets**

**Agency Funds**

**June 30, 2003**

(Expressed in Thousands)

	Agency Funds					
	Local Income Taxes	Insurance Premium Taxes	Local Transportation Funds and Other Taxes	Payroll Taxes and Fringe Benefits	Patient and Prisoner Accounts	Total Agency Funds
Assets:						
Cash and cash equivalents. . . . .		\$ 10	\$ 2,044		\$5,564	\$ 7,618
Taxes receivable, net . . . . .	\$ 253,489					253,489
Accounts receivable from state treasury . . . .	1,024,433	45,339	20,450	\$750		1,090,972
Other receivables. . . . .		1,615				1,615
Total assets . . . . .	<u>\$1,277,922</u>	<u>\$46,964</u>	<u>\$22,494</u>	<u>\$750</u>	<u>\$5,564</u>	<u>\$1,353,694</u>
Liabilities:						
Accounts payable and accrued liabilities . . . .		\$46,964	\$ 2,044	\$750	\$5,564	\$ 55,322
Accounts payable to political subdivisions . . .	<u>\$1,277,922</u>		20,450			1,298,372
Total liabilities. . . . .	<u>\$1,277,922</u>	<u>\$46,964</u>	<u>\$22,494</u>	<u>\$750</u>	<u>\$5,564</u>	<u>\$1,353,694</u>

STATE OF MARYLAND

**Combining Statement of Changes in Assets  
and Liabilities - Agency Funds**

**For the Year Ended June 30, 2003**

(Expressed in Thousands)

	Balance July 1, 2002	Additions	Deletions	Balance June 30, 2003
<i>Patient and Prisoner Accounts</i>				
Assets:				
Cash and cash equivalents. ....	\$ 5,618	\$ 18,106	\$ 18,160	\$ 5,564
Liabilities:				
Accounts payable and accrued liabilities .....	\$ 5,618	\$ 18,106	\$ 18,160	\$ 5,564
<i>Insurance Premium Taxes</i>				
Assets:				
Cash and cash equivalents. ....	\$ 10			\$ 10
Accounts receivable from state treasury .....	41,701	\$ 20,876	\$ 17,238	45,339
Other receivables .....	1,531	84		1,615
Total assets .....	\$ 43,242	\$ 20,960	\$ 17,238	\$ 46,964
Liabilities:				
Accounts payable and accrued liabilities .....	\$ 43,242	\$ 20,960	\$ 17,238	\$ 46,964
<i>Local Income Taxes</i>				
Assets:				
Taxes receivable .....	\$ 226,743	\$ 47,534	\$ 20,788	\$ 253,489
Accounts receivable from state treasury .....	1,106,965	2,908,702	2,991,234	1,024,433
Total assets .....	\$1,333,708	\$2,956,236	\$3,012,022	\$1,277,922
Liabilities:				
Accounts payable to political subdivisions .....	\$1,333,708	\$2,956,236	\$3,012,022	\$1,277,922
<i>Local Transportation Funds and Other Taxes</i>				
Assets:				
Cash and cash equivalents .....	\$ 8,155	\$ 6,809	\$ 12,920	\$ 2,044
Accounts receivable from state treasury .....	23,526	69,582	72,658	20,450
Other receivables .....	10		10	
Total assets .....	\$ 31,691	\$ 76,391	\$ 85,588	\$ 22,494
Liabilities:				
Accounts payable and accrued liabilities .....	\$ 8,165	\$ 6,809	\$ 12,930	\$ 2,044
Accounts payable to political subdivisions .....	23,526	69,582	72,658	20,450
Total liabilities. ....	\$ 31,691	\$ 76,391	\$ 85,588	\$ 22,494
<i>Payroll Taxes and Fringe Benefits</i>				
Assets:				
Accounts receivable from state treasury .....	\$ 783	\$ 936,110	\$ 936,143	\$ 750
Liabilities:				
Accounts payable and accrued liabilities .....	\$ 783	\$ 936,110	\$ 936,143	\$ 750
<i>Totals - All Agency Funds</i>				
Assets:				
Cash and cash equivalents .....	\$ 13,783	\$ 24,915	\$ 31,080	\$ 7,618
Taxes receivable .....	226,743	47,534	20,788	253,489
Accounts receivable from state treasury .....	1,172,975	3,935,270	4,017,273	1,090,972
Other receivables .....	1,541	84	10	1,615
Total assets .....	\$1,415,042	\$4,007,803	\$4,069,151	\$1,353,694
Liabilities:				
Accounts payable and accrued liabilities .....	\$ 57,808	\$ 981,985	\$ 984,471	\$ 55,322
Accounts payable to political subdivisions .....	1,357,234	3,025,818	3,084,680	1,298,372
Total liabilities. ....	\$1,415,042	\$4,007,803	\$4,069,151	\$1,353,694

STATE OF MARYLAND  
COMPONENT UNIT FINANCIAL STATEMENTS

**Non-major Component Units**

Non-major component units are comprised of the following proprietary fund type entities.

**Maryland Prepaid College Trust**

The Maryland Prepaid College Trust is directed by the Maryland Higher Education Investment Board to provide methods for Maryland citizens to save money for college tuition.

**Maryland Environmental Service**

The Maryland Environmental Service was created as a body corporate and politic. The Service helps private industry and local governments manage liquid, solid and hazardous wastes. In accordance with direction from the Governor, the Service plans and establishes major resource recovery facilities, solid waste management plans and hazardous waste management programs.

**Maryland Industrial Development Financing Authority**

The Maryland Industrial Development Financing Authority was established as a body corporate and politic and a public instrumentality of the State to provide financial assistance to enterprises seeking to locate or expand operations in Maryland.

**Maryland Food Center Authority**

The Maryland Food Center Authority is a body corporate and politic which was created to establish and operate a consolidated wholesale food center within the Greater Baltimore Region and is subject to State regulations.

STATE OF MARYLAND

**Combining Statement of Net Assets**

**Non-major Component Units**

**June 30, 2003**

(Expressed in Thousands)

	Maryland Prepaid College Trust	Maryland Environmental Service	Maryland Industrial Development Financing Authority	Maryland Food Center Authority	Total Non-major Component Units
<b>Assets:</b>					
Cash and cash equivalents . . . . .	\$ 6,433	\$ 1,115			\$ 7,548
Investments . . . . .	149,406	12,490			161,896
Tuition contracts receivable . . . . .	171,295				171,295
Other accounts receivable . . . . .	21	11,866		\$ 5	11,892
Due from primary government . . . . .			\$36,895	2,983	39,878
Investments in direct financing leases.. . . .		10,889			10,889
Other assets . . . . .		11,394			11,394
Restricted assets:					
Cash . . . . .			150		150
Investments . . . . .		19,293			19,293
Due from primary government . . . . .				762	762
Capital assets (net of accumulated depreciation):					
Land . . . . .		680		5,093	5,773
Structures and improvements . . . . .		6,306		11,868	18,174
Equipment . . . . .	305	7,959		164	8,428
Construction in progress . . . . .		1,283		568	1,851
Total assets . . . . .	327,460	83,275	37,045	21,443	469,223
<b>Liabilities:</b>					
Accounts payable and accrued liabilities . . . . .	356	29,818		364	30,538
Due to primary government . . . . .	43				43
Loans from primary government . . . . .	400				400
Unearned revenue . . . . .			107	161	268
Accrued insurance on loan losses . . . . .			6,177		6,177
Accrued tuition benefits . . . . .	395,449				395,449
Other liabilities . . . . .	58	9,468		391	9,917
Bonds and notes payable:					
Due within one year . . . . .		3,536			3,536
Due in more than one year . . . . .		29,747			29,747
Total liabilities . . . . .	396,306	72,569	6,284	916	476,075
<b>Net Assets:</b>					
Invested in capital assets, net of related debt . . . . .	305	5,033		17,693	23,031
Restricted for capital improvements and deposits . . . . .			150	762	912
Unrestricted (deficit) . . . . .	(69,151)	5,673	30,611	2,072	(30,795)
Total net assets (deficiency) . . . . .	\$(68,846)	\$10,706	\$30,761	\$20,527	\$(6,852)



STATE OF MARYLAND

**Combining Statement of Activities**

**Non-major Component Units**

**For the Year Ended June 30, 2003**

(Expressed in Thousands)

	Maryland Prepaid College Trust	Maryland Environmental Service	Maryland Industrial Development Financing Authority	Maryland Food Center Authority	Total
Expenses:					
General and administrative . . . . .	\$ 1,666	\$ 7,100	\$ 1,316	\$ 2,874	\$ 12,956
Operation and maintenance of facilities . . . . .		64,011			64,011
Provision for insurance on loan losses, net . . . . .			2,083		2,083
Tuition benefits . . . . .	130,587				130,587
Interest on long-term debt . . . . .		1,724			1,724
Depreciation and amortization . . . . .	117	1,924		540	2,581
Other . . . . .	100	743		295	1,138
Total expenses . . . . .	132,470	75,502	3,399	3,709	215,080
Program revenues:					
Charges for services and sales . . . . .	83,579	74,672	932	3,484	162,667
Restricted investment income . . . . .		199			199
Total charges for services . . . . .	83,579	74,871	932	3,484	162,866
Capital grants and contributions . . . . .		1,424			1,424
Total program revenues . . . . .	83,579	76,295	932	3,484	164,290
Net program revenue (expense) . . . . .	(48,891)	793	(2,467)	(225)	(50,790)
General revenues:					
Unrestricted investment income . . . . .	10,500	245	714	20	11,479
Total general revenues . . . . .	10,500	245	714	20	11,479
Change in net assets . . . . .	(38,391)	1,038	(1,753)	(205)	(39,311)
Net assets - beginning . . . . .	(30,455)	9,668	32,514	20,732	32,459
Net assets - ending . . . . .	\$(68,846)	\$10,706	\$30,761	\$20,527	\$ (6,852)

## STATISTICAL SECTION

# STATE OF MARYLAND

## Schedule of Estimated and Actual Revenues By Source, Budgetary Basis, For the Year Ended June 30, 2003 (Expressed in Thousands)

	Annual Budgeted Funds										Capital Projects Fund	Total Actual Revenues
	General Fund				Special Fund		Federal Fund		Higher Education Funds			
	Current		Restricted Fund		Current		Restricted Fund		Current			
	Estimated Revenues	Actual Revenues	Estimated Revenues	Actual Revenues	Estimated Revenues	Actual Revenues	Estimated Revenues	Actual Revenues	Estimated Revenues	Actual Revenues		
Taxes:												
Property tax . . . . .	\$ 47,269	\$ 65,701	\$ 315,224	\$ 304,792							\$ 59,266	\$ 429,759
Franchise and corporation tax . . . . .	140,093	128,975										128,975
Death taxes . . . . .	133,937	143,261										143,261
Admission and amusement tax . . . . .			2,209	1,490								1,490
Alcoholic beverages tax . . . . .	26,172	25,651										25,651
Motor vehicle fuel taxes . . . . .	12,349	12,520	699,251	704,166								716,686
Income taxes . . . . .	5,002,651	4,992,012	104,373	91,985								5,083,997
Sales and use taxes . . . . .	2,709,464	2,697,061	22,900	23,101								2,720,162
Tobacco taxes . . . . .	211,778	199,191	79,950	79,936								279,127
Motor vehicle titling taxes . . . . .			653,000	669,253								669,253
Insurance company tax . . . . .	220,046	228,476	472	9,782								238,258
Horse racing taxes . . . . .			4,911	3,302								3,302
Shellfish taxes . . . . .				80								80
Boxing, wrestling or sparring taxes . . . . .		384	15									384
Boat titling tax . . . . .			26,331	27,935								27,935
Energy generation tax . . . . .			40,466	42,665								42,665
Emergency telephone system tax . . . . .			43,270	41,480								41,480
Total taxes . . . . .	8,503,759	8,493,232	1,992,372	1,999,967							59,266	10,552,465
Other:												
Licenses and permits . . . . .	36,518	36,538	328,943	349,478								386,016
Fees for services . . . . .	86,913	82,097	421,776	394,976								477,073
Fines and costs . . . . .	97,582	115,102	251,675	183,181								298,283
Sales to the public . . . . .	8,808	5,002	62,276	71,685								76,687
Commissions and royalties . . . . .	65	27	65,940	52,142								52,169
Rentals . . . . .	470	522	73,654	60,631								61,153
Interest on investments . . . . .	35,877	42,548	13,679	16,337							186	59,071
Interest on loan repayments . . . . .			16,684	5,678								5,678
Miscellaneous . . . . .	77,088	81,055	67,584	76,194								157,249
Colleges and universities . . . . .												2,297,939
Federal reimbursements and grants . . . . .		33,356	48,851	45,626								5,278,560
Other reimbursements . . . . .		96,391	181,482	251,150							376,950	724,491
Bond issues:												
State - general purpose . . . . .												
Consolidated transportation bonds . . . . .			365,000	344,779							725,000	725,000
State reimbursements . . . . .	433,824	610,633	714,978	272,125							344,779	1,000,084
Appropriated from general fund . . . . .											117,326	895,723
Trust funds . . . . .												14,298
Revolving accounts . . . . .	5,000	10,372	16,080	14,298								34,551
Total revenues . . . . .	\$9,366,556	\$9,606,875	\$4,671,562	\$4,162,426	\$5,691,478	\$5,199,578	\$2,398,283	\$2,403,512	\$862,674	\$790,150	\$1,278,728	\$23,441,269

# STATE OF MARYLAND

## Schedule of Budget and Actual Expenditures and Encumbrances by Major Function, Budgetary Basis, For the Year Ended June 30, 2003

(Expressed in Thousands)

Expenditures and Encumbrances by Major Function*	Annual Budgeted Funds										Capital Projects Fund	Total	
	General Fund		Special Fund		Federal Fund		Current		Higher Education Funds				
	Final Budget	Actual	Final Budget	Actual	Final Budget	Actual	Final Budget	Actual	Unrestricted Fund Final Budget	Restricted Fund Final Budget			Actual
Payments of revenue to civil divisions of the State. . . . .	\$ 150,316	\$ 150,262										\$ 150,262	
Public debt. . . . .	94,020	92,684	\$ 736,235	\$ 727,385								820,069	
Legislative . . . . .	57,361	57,361										57,361	
Judicial review and legal. . . . .	339,970	337,747	43,959	43,091	\$ 4,124	\$ 3,773						384,611	
Executive and administrative control. . . . .	129,599	127,637	95,528	91,715	178,582	141,387						360,739	
Financial and revenue administration . . . . .	158,529	156,561	71,101	68,109								224,670	
Budget and management. . . . .	33,868	28,841	18,466	13,726								42,567	
Retirement and pension. . . . .			21,642	21,216								21,216	
General services . . . . .	52,202	50,688	2,107	1,827	720	714						53,229	
Transportation and highways. . . . .			2,502,782	2,418,604	761,435	710,994						3,129,598	
Natural resources and recreation . . . . .	78,998	78,791	116,847	109,865	27,438	24,715						213,371	
Agriculture. . . . .	28,794	28,781	50,236	49,557	5,680	4,673						83,011	
Health, hospitals and mental hygiene . . . . .	2,815,128	2,814,284	341,266	305,632	2,332,171	2,313,170						5,433,086	
Human resources . . . . .	495,316	495,315	90,056	88,522	1,039,863	988,839						1,572,676	
Labor, licensing and regulation . . . . .	29,212	28,900	17,363	12,353	158,263	142,354						183,607	
Public safety and correctional services . . . . .	783,118	779,676	115,764	110,184	9,611	9,045						898,905	
Public education. . . . .	4,510,918	4,506,792	183,317	173,288	857,201	763,277	\$2,398,283	\$2,356,404	\$862,674	\$783,232		8,582,993	
Housing and community development . . . . .	29,243	29,242	49,101	46,683	163,175	141,778						217,703	
Business and economic development. . . . .	71,269	71,269	75,503	63,817	718	580						135,666	
Environment . . . . .	49,572	49,571	83,186	77,324	29,516	22,783						149,678	
Juvenile services . . . . .	158,918	158,895	257	115	15,243	14,025						173,035	
State police. . . . .	230,730	139,923	57,295	55,613	107,738	91,528						287,064	
State reserve fund. . . . .	181,029	181,029										181,029	
Loan accounts . . . . .											\$866,410	866,410	
Reversions:													
Current year reversions . . . . .	(30,000)	(17,716)		(14,786)		(30,301)			(741)		(102)	-	
Prior year reversions . . . . .												(63,646)	
Total expenditures and encumbrances . . . . .	\$10,448,110	\$10,346,533	\$4,672,011	\$4,463,840	\$5,691,478	\$5,343,334	\$2,398,283	\$2,355,663	\$862,674	\$783,130	\$866,410	\$24,158,910	

\*Appropriation and expenditure differences between this statement and the "Statement of Revenues, Expenditures and Encumbrances and Changes in Fund Balances - Budget and Actual - Budgetary General and Special" included in the PSI Section, result from differences in the classification of prior year encumbrances and expenditures.

# STATE OF MARYLAND

## Schedule of Changes in Fund Equities - Budgetary Basis For the Year Ended June 30, 2003

(Expressed in Thousands)

	General Fund	Special Fund		Federal Fund	Higher Education			Capital Projects Fund	Total
		Other Special	Debt Service		Unrestricted Fund	Current Restricted Fund	Current Restricted Fund		
Fund equities, July 1, 2002 .....	\$1,222,320	\$ 919,504	\$ 37,355		\$ 311,320	\$ 3,302	\$ 289,139	\$ 2,782,940	
Increase :									
Revenues .....	9,606,875	3,844,509	317,917	\$5,199,578	2,403,512	790,150	1,278,728	23,441,269	
Decrease :									
Appropriations .....	10,478,110	4,346,654	325,357	5,691,478	2,398,283	862,674			
Less: Current year reversions .....	(113,861)	(184,535)	(8,850)	(317,843)	(41,879)	(79,442)			
Prior year reversions .....	(17,716)	(14,786)		(30,301)	(741)	(102)			
Expenditures and encumbrances* .....	10,346,533	4,147,333	316,507	5,343,334	2,355,663	783,130	866,410	24,158,910	
Changes to encumbrances during fiscal year 2003 .....	57,340	(9,169)		(48,323)	2,453	135		2,436	
Expenditures .....	10,403,873	4,138,164	316,507	5,295,011	2,358,116	783,265	866,410	24,161,346	
Transfers in (out) .....	388,706	230,094	2,227	95,433	(31,013)	(118)	(434,595)	250,734	
Fund equities, June 30, 2003 .....	\$ 814,028	\$ 855,943	\$ 40,992	\$ -	\$ 325,703	\$ 10,069	\$ 266,862	\$ 2,313,597	
Fund Balance:									
Reserved:									
Encumbrances .....	\$ 177,768	\$ 456,779		\$ 226,196	\$2,922	\$ 147	\$ 446,299	\$ 1,310,111	
State reserve fund .....	513,607							513,607	
Loans and notes receivable .....		9,545	\$ 12,947					22,492	
Shore erosion loan program .....		8,828						8,828	
Unreserved:									
Designated for:									
General long-term debt service .....								28,045	
Undesignated surplus (deficit) .....	122,653	380,791	28,045	(226,196)	322,781	9,922	(179,437)	430,514	
Total .....	\$ 814,028	\$ 855,943	\$ 40,992	\$ -	\$ 325,703	\$ 10,069	\$ 266,862	\$ 2,313,597	

\*Appropriation and expenditure differences between this statement and the "Statement of Revenues, Expenditures and Encumbrances and Changes in Fund Balances - Budget and Actual - Budgetary General, Special, and Federal" included in the RSI Section, result from differences in the classification of prior year encumbrances and expenditures.

STATE OF MARYLAND

Schedule of Funds Transferred to Political Subdivisions

For the Year Ended June 30, 2003 (1)

(Expressed in Thousands)

Subdivision (2)	State Sources				Other Sources			Assessed Value of Real and Personal Property (2)	Amount Per \$100 of Assessed Value
	Shared Revenues	Direct Grants and Appropriations	Debt Service	Total	Federal Funds	State Administered Local Revenue	Total		
Allegany . . . . .	\$ 6,033	\$ 81,921	\$ 2,311	\$ 90,265	\$ 17,101	\$ 20,959	\$ 128,325	\$ 2,416,009	\$5.31
Anne Arundel . .	25,017	306,369	13,351	344,737	43,388	316,523	704,648	38,118,944	1.85
Baltimore County.	34,303	475,997	33,834	544,134	75,709	442,657	1,062,500	46,023,190	2.31
Calvert . . . . .	4,883	73,545	10,576	89,004	8,231	50,006	147,241	6,336,952	2.32
Caroline . . . . .	3,848	37,091	2,726	43,665	7,668	9,370	60,703	1,380,313	4.40
Carroll . . . . .	10,985	124,117	9,380	144,482	13,335	80,776	238,593	10,278,303	2.32
Cecil . . . . .	5,426	82,965	3,330	91,721	13,189	40,868	145,778	5,222,682	2.79
Charles . . . . .	6,422	119,894	4,259	130,575	17,248	62,981	210,804	8,672,489	2.43
Dorchester . . . .	4,467	32,479	6,561	43,507	9,969	9,349	62,825	1,648,897	3.81
Frederick . . . . .	14,360	156,047	6,595	177,002	19,584	132,759	329,345	14,007,191	2.35
Garrett . . . . .	5,137	34,093	2,754	41,984	7,719	11,803	61,506	2,127,502	2.89
Harford . . . . .	12,659	179,077	10,677	202,413	22,468	135,874	360,755	13,640,671	2.64
Howard . . . . .	12,626	159,433	25,220	197,279	16,968	189,757	404,004	22,543,862	1.79
Kent . . . . .	2,292	14,791	1,350	18,433	4,263	8,587	31,283	1,454,105	2.15
Montgomery . . .	35,663	437,091	25,936	498,690	67,278	792,262	1,358,230	87,193,587	1.56
Prince George's .	29,183	730,417	20,701	780,301	124,138	373,922	1,278,361	43,740,098	2.92
Queen Anne's . .	4,491	34,956	6,370	45,817	5,522	28,809	80,148	3,620,689	2.21
St. Mary's . . . .	5,698	70,054	7,369	83,121	11,821	50,687	145,629	5,533,506	2.63
Somerset . . . . .	2,723	37,315	668	40,706	8,707	6,258	55,671	758,573	7.34
Talbot . . . . .	3,626	14,644	465	18,735	5,805	17,946	42,486	4,068,200	1.04
Washington . . . .	8,885	107,552	2,186	118,623	21,439	54,646	194,708	7,015,202	2.78
Wicomico . . . . .	7,274	87,326	6,718	101,318	19,058	35,373	155,749	4,010,977	3.88
Worcester . . . . .	5,444	22,670	2,725	30,839	9,823	20,079	60,741	7,220,088	0.84
Baltimore City . .	177,590	1,006,725	54,211	1,238,526	309,526	213,148	1,761,200	19,674,089	8.95
Total . . . . .	\$429,035	\$4,426,569	\$260,273	\$5,115,877	\$859,957	\$3,105,399	\$9,081,233	\$356,706,119	

(1) In addition to the amounts shown for counties and Baltimore City, \$131,897,000 was distributed to municipalities within the counties.

(2) Source: Fifty-ninth Report of the Department of Assessments and Taxation, dated January 2003. Assessed value of property is 100%.

STATE OF MARYLAND

**Schedule of Taxes Receivable from**

**Collectors of State Property Taxes**

**June 30, 2003**

(Expressed in Thousands)

Political Subdivision	Taxes Receivable		
	Current Year	Prior Years	Total
Allegany . . . . .	\$ 155	\$ 77	\$ 232
Anne Arundel . . . . .	443	188	631
Baltimore County . . . . .	86	231	317
Calvert . . . . .	170	65	235
Caroline . . . . .	4	7	11
Carroll . . . . .	87	76	163
Cecil . . . . .	119	222	341
Charles . . . . .	(35)	13	(22)
Dorchester . . . . .	114	35	149
Frederick . . . . .	45	14	59
Garrett . . . . .	75	22	97
Harford . . . . .	84	59	143
Howard . . . . .	32	608	640
Kent . . . . .	58	5	63
Montgomery . . . . .	(171)	102	(69)
Prince George's . . . . .	442	200	642
Queen Anne's . . . . .	11	7	18
St. Mary's . . . . .	120	16	136
Somerset . . . . .	69	4	73
Talbot . . . . .	97	74	171
Washington . . . . .	1	2	3
Wicomico . . . . .	29	31	60
Worcester . . . . .	115	35	150
Baltimore City . . . . .	952	1,604	2,556
Total . . . . .	\$3,102	\$3,697	\$6,799

STATE OF MARYLAND

**Schedule of Estimated Revenues - Budgetary Basis**

**For the Year Ending June 30, 2004**

(Expressed in Thousands)

	General Fund	Special Fund	Federal Fund	Current Unrestricted Fund	Current Restricted Fund	Total
Income taxes . . . . .	\$ 5,400,846	\$ 105,616				\$ 5,506,462
Retail sales and use tax and licenses . . . . .	2,830,379	23,700				2,854,079
Motor vehicle fuel taxes and licenses . . . . .	12,611	726,600				739,211
Motor vehicle tax and licenses . . . . .	10,155	867,900				878,055
Property taxes . . . . .	47,269	485,519 (1)				532,788
Insurance company taxes, licenses and fees . . . . .	226,647					226,647
Franchise and corporation taxes . . . . .	221,256					221,256
State tobacco tax and licenses . . . . .	275,566					275,566
Alcoholic beverages taxes and licenses . . . . .	27,734					27,734
Death taxes . . . . .	136,884					136,884
Miscellaneous taxes, fees and other revenues . . . . .	109,729	60,673 (2)				170,402
Budgeted tobacco settlement recoveries . . . . .		181,409				181,409
Horse racing taxes and licenses . . . . .	260	4,350				4,610
District courts fines and costs . . . . .	74,456					74,456
Interest on investments . . . . .	38,076	4,000				42,076
Hospital patient recoveries . . . . .	76,427					76,427
Legislative . . . . .	225					225
Judicial review and legal . . . . .	64,917	52,265	\$3,343			120,525
Executive and administrative control . . . . .	4,569	70,749	85,945			161,263
Financial and revenue administration . . . . .	8,084	16,037				24,121
Budget and management . . . . .	1,323	26,209				27,532
State lottery agency . . . . .	450,732	50,919				501,651
Retirement and pension . . . . .		21,657				21,657
General services . . . . .	63	1,480	755			2,298
Transportation and highways . . . . .		592,847	755,284			1,348,131
Natural resources and recreation . . . . .	582	62,846	27,143			90,571
Agriculture . . . . .	291	18,312	7,979			26,582
Health, hospitals and mental hygiene . . . . .	13,267	111,298	2,447,830			2,572,395
Human resources . . . . .	2,898	82,417	916,564			1,001,879
Labor, licensing and regulation . . . . .	9,248	8,825	135,713			153,786
Public safety and correctional services . . . . .	7,419	109,958	9,559			126,936
Public education . . . . .	26,871	45,332	825,770	\$2,442,798	\$917,032	4,257,803
Housing and community development . . . . .	680	43,217	168,392			212,289
Business and economic development . . . . .		52,390	558			52,948
Environment . . . . .	260	60,824	61,865			122,949
Juvenile justice . . . . .	225	248	14,769			15,242
State police . . . . .	2,800	56,296	710			59,806
Total estimated revenues . . . . .	\$10,082,749	\$3,943,893	\$5,462,179	\$2,442,798	\$917,032	\$22,848,651(3)

(1) Includes \$472,145,545 recorded in the Debt Service Fund for accounting purposes.

(2) Includes \$60,673,238 recorded in the Debt Service Fund for accounting purposes.

(3) Amounts are reported at July 1, 2003, and do not reflect revisions, if any, subsequent to that date.



STATE OF MARYLAND

**Schedule of General, Special, Federal, Current Unrestricted  
and Current Restricted Fund Appropriations - Budgetary Basis  
For the Year Ending June 30, 2004**

(Expressed in Thousands)

	General Fund	Special Fund	Federal Fund	Current Unrestricted Fund	Current Restricted Fund	Total
Payments of revenue to civil divisions of the State . . . . .	\$ 141,096					\$ 141,096
Public debt . . . . .		\$ 532,819(1)				532,819
Legislative . . . . .	59,860					59,860
Judicial review and legal . . . . .	355,230	52,266	\$ 3,343			410,839
Executive and administrative control . . . . .	130,627	70,749	85,945			287,321
Financial and revenue administration . . . . .	150,916	66,956				217,872
Budget and management . . . . .	33,525	26,209				59,734
Retirement and pension . . . . .		21,657				21,657
General services . . . . .	51,667	1,480	755			53,902
Transportation and highways . . . . .		2,320,661	755,284			3,075,945
Natural resources and recreation . . . . .	74,795	75,236	27,143			177,174
Agriculture . . . . .	27,862	25,872	7,979			61,713
Health, hospitals and mental hygiene . . . . .	2,978,614	283,607	2,447,830			5,710,051
Human resources . . . . .	519,734	82,417	916,564			1,518,715
Labor, licensing and regulation . . . . .	19,807	11,699	135,713			167,219
Public safety and correctional services . . . . .	780,655	109,958	9,559			900,172
Public education . . . . .	4,725,519	48,332	825,770	\$2,442,798	\$917,032	8,959,451
Housing and community development . . . . .	11,761	44,217	168,392			224,370
Business and economic development . . . . .	57,860	52,390	558			110,808
Environment . . . . .	41,308	60,824	61,865			163,997
Juvenile justice . . . . .	165,117	248	14,769			180,134
State police . . . . .	223,326	56,296	710			280,332
Total appropriations . . . . .	\$10,549,279	\$3,943,893	\$5,462,179	\$2,442,798	\$917,032	\$23,315,181(2)

(1) Recorded in the Debt Service Fund for accounting purposes.

(2) Amounts are reported at July 1, 2003, and do not reflect revisions, if any, subsequent to that date.

# STATE OF MARYLAND

## Schedule of General Government Revenues by Source, Expenditures by Function and Other Sources (Uses) of Financial Resources and Changes in Fund Balances General, Special Revenue, Debt Service and Capital Projects Funds Last Ten Fiscal Years (Expressed in Thousands)

	Year ended June 30,									
	2003	2002	2001	2000	1999	1998	1997	1996	1995	1994
<b>Revenues:</b>										
Income taxes .....	\$5,080,359	\$4,911,807	\$5,741,664	\$5,223,740	\$4,845,406	\$4,491,384	\$4,084,147	\$3,796,251	\$3,669,027	\$3,590,562
Retail sales and use taxes .....	2,717,383	2,689,567	2,646,103	2,497,531	2,299,266	2,161,158	2,093,876	2,000,298	1,951,031	1,814,948
Motor vehicle taxes and fees .....	1,693,736	1,660,994	1,577,714	1,570,433	1,507,898	1,426,340	1,373,002	1,321,412	1,298,132	1,225,531
Other taxes .....	1,545,013	1,413,307	1,453,179	1,366,807	1,203,907	1,149,092	1,057,592	1,065,176	1,031,735	1,053,998
Other licenses and fees .....	544,456	610,009	450,768	459,063	328,442	289,414	208,009	211,817	216,621	193,216
Charges for services .....	775,852	814,332	875,717	793,722	758,698	737,099	658,583	670,901	803,183	691,597
Revenues pledged as security for bonds	69,108	41,161(3)								
Interest and other investment income	51,304	108,214	288,936	193,897	174,945	151,443	138,893	114,986	100,626	56,120
Federal .....	5,506,539	4,931,908	4,451,010	3,973,662	3,681,692	3,509,817	3,726,882	3,357,959	3,277,297	2,630,278
Other .....	261,226	153,510	126,379	99,482	164,922	134,829	134,875	186,902	190,297	215,761
<b>Total revenues .....</b>	<b>18,244,976</b>	<b>17,334,809</b>	<b>17,611,470</b>	<b>16,178,337</b>	<b>14,965,176</b>	<b>14,050,576</b>	<b>13,475,859</b>	<b>12,725,702</b>	<b>12,537,949</b>	<b>11,472,011</b>
<b>Expenditures:</b>										
<b>Current:</b>										
General government .....	638,256	627,367	586,812	546,049	495,028	427,482	382,424	520,419	616,518	536,542
Education .....	5,779,552	5,675,065	3,888,180	3,626,739	3,440,054	3,239,233	3,025,536	2,818,909	2,637,338	2,497,869
Business and economic development	43,441	55,418	55,952	54,593	50,344	45,083	41,026	42,259	163,735	149,647
Labor, licensing and regulation ..	181,835	174,725	177,196	183,363	158,192	148,980	141,523	155,495		
Human resources .....	1,614,493	1,536,780	1,456,484	1,341,603	1,285,650	1,317,365	1,304,480	1,344,361	1,382,650	954,822
Health and mental hygiene .....	5,545,991	4,893,824	4,483,159	3,956,048	3,599,677	3,255,961	3,323,439	3,132,078	3,240,900	2,965,057
Environment .....	95,500	87,447	78,960	73,910	68,119	60,973	64,722	71,911	64,943	60,567
Transportation .....	1,123,564	1,103,756	1,070,893	1,007,331	979,560	859,460	860,986	859,208	783,786	752,679
Public safety .....	1,326,612	1,265,624	1,533,283	1,435,979	1,349,764	1,202,632	1,238,772	1,061,974	938,507	896,938
Judicial .....	421,702	407,079(4)								
Housing and community development	205,501	168,580	121,602	103,804	106,604	97,661	80,390	67,093	69,611	75,746
Natural resources and recreation ..	175,845	167,160	150,850	147,179	131,541	122,113	125,269	123,681	116,530	114,678
Agriculture .....	83,384	91,562	75,990	59,552	53,078	42,202	38,138	43,010	34,872	28,774
Intergovernmental .....	1,422,007	1,375,043	1,336,429	1,186,985	1,151,315	1,109,755	1,036,094	933,700	937,236	784,990
Debt service .....	627,856	609,684	618,047	640,887	603,630	593,302	585,589	601,999	506,031	467,279
Capital outlays .....	1,464,110	1,415,740	1,343,570	1,121,889	1,106,875	1,044,187	1,137,356	1,047,936	1,075,888	784,555
<b>Total expenditures .....</b>	<b>20,749,649</b>	<b>19,654,854</b>	<b>16,977,407</b>	<b>15,485,911</b>	<b>14,579,431</b>	<b>13,566,389</b>	<b>13,385,744</b>	<b>12,824,033</b>	<b>12,568,545</b>	<b>11,070,143</b>
Excess (deficiency) of revenues over expenditures .....	(2,504,673)	(2,320,045)	634,063	692,426	385,745	484,187	90,115	(98,331)	(30,596)	401,868
<b>Other sources(uses) of financial resources:</b>										
Capital leases .....	101,814	44,294	70,793	54,489						
Direct financing leases .....				20,000	100,001	117,234	62,200	62,930	16,872	41,835
Proceeds from bond issues .....	1,196,199	615,846	422,890	202,417	483,805	514,190	460,000	469,504	566,384	416,780
Other long-term liabilities .....	171,239	119,460								
Proceeds from refunding bonds .....	685,594	117,458				113,340				802,701
Payments to escrow agents .....	(684,697)	(117,217)				(113,661)				(811,268)
Operating transfers in .....	1,244,595	1,453,353	1,644,746	1,321,917	1,179,676	1,020,788	920,843	910,063	1,033,400	759,879
Operating transfers in from component units .....		(5)	3,419	1,108	1,013	593	870	1,339		
Operating transfers out .....	(835,471)	(1,056,529)	(1,302,866)	(991,248)	(806,851)	(670,151)	(563,969)	(548,955)	(1,342,979)	(1,024,000)
Operating transfers out to component units .....		(5)	(1,041,524)	(918,000)	(824,170)	(773,628)	(711,032)	(680,339)		
Net other sources(uses) of financial resources .....	1,879,273	1,176,665	(202,542)	(309,317)	133,474	208,705	168,912	214,542	273,677	185,927
Special items .....	114,200	25,628								
<b>Net change in fund balances ..</b>	<b>(511,200)</b>	<b>(1,117,752)</b>	<b>431,521</b>	<b>383,109</b>	<b>519,219</b>	<b>692,892</b>	<b>259,027</b>	<b>116,211</b>	<b>243,081</b>	<b>587,795</b>
Fund balance, July 1 .....	2,254,106	3,763,280	3,331,759	2,948,650	2,429,431	1,736,539	1,476,480	1,360,269	1,117,188	529,393
Adjustments .....		(391,422)(2)					1,032(1)			
Fund balance, July 1, as restated .....		3,371,858					1,477,512			
<b>Fund balance, June 30 .....</b>	<b>\$1,742,906</b>	<b>\$2,254,106</b>	<b>\$3,763,280</b>	<b>\$3,331,759</b>	<b>\$2,948,650</b>	<b>\$2,429,431</b>	<b>\$1,736,539</b>	<b>\$1,476,480</b>	<b>\$1,360,269</b>	<b>\$1,117,188</b>

Source: General Accounting Division, State Comptroller's Office

- (1) Effective July 1, 1996, investments of the general governmental funds were valued at fair value which is based on quoted market prices.
- (2) Effective July 1, 2001, the beginning fund balance was restated for inventory. Also, the Maryland Transportation Authority's activities were no longer recorded in the special revenue and debt service funds, and its beginning equity was reclassified from the respective governmental funds to the enterprise funds.
- (3) These revenues were previously recorded as federal revenue.
- (4) These expenditures were previously included in public safety.
- (5) Effective July 1, 2001, all transactions between the primary government and component units are treated as revenues and expenses.

# STATE OF MARYLAND

## Government-wide Expenses by Function

### Last Two Fiscal Years\*

(Expressed in Thousands)

Functions/Programs	Year ended June 30,	
	2003	2002
Governmental activities:		
General government . . . . .	\$ 665,133	\$ 610,560
Health and mental hygiene . . . . .	5,592,272	4,908,418
Education . . . . .	4,573,056	4,459,644
Aid for higher education . . . . .	1,211,569	1,201,462
Human resources . . . . .	1,633,461	1,536,124
Public safety . . . . .	1,338,202	1,194,952
Transportation . . . . .	1,694,321	1,630,724
Judicial . . . . .	429,302	408,571
Labor, licensing and regulation . . . . .	182,584	173,625
Natural resources and recreation . . . . .	168,107	149,372
Housing and community development . . . . .	203,946	168,595
Environment . . . . .	95,079	87,432
Agriculture . . . . .	85,426	64,395
Business and economic development . . . . .	43,387	55,570
Intergovernmental grants . . . . .	1,422,007	1,375,043
Interest . . . . .	250,558	209,739
Total governmental activities . . . . .	19,588,410	18,234,226
Business-type activities:		
Economic development - insurance programs . . . . .	2,938	5,262
Economic development - general loan programs . . . . .	48,633	69,381
Economic development - water quality loan programs . . . . .	11,510	11,892
Economic development - housing loan programs . . . . .	213,404	210,469
Unemployment insurance program . . . . .	633,904	550,345
Maryland State Lottery . . . . .	883,736	867,910
Maryland Transportation Authority . . . . .	359,015	205,831
State Use Industries . . . . .	38,178	39,243
Total business-type activities . . . . .	2,191,318	1,960,333
Total government-wide expenses . . . . .	\$21,779,728	\$20,194,559

Source: General Accounting Division, State Comptroller's Office

\*Information not available for years prior to June 30, 2002.

# STATE OF MARYLAND

## Government-wide Revenues

### Last Two Fiscal Years\*

(Expressed in Thousands)

Source	Year ended June 30,	
	2003	2002
Governmental activities:		
Program revenues:		
Charges for services . . . . .	\$ 1,655,645	\$ 1,607,627
Operating grants and contributions . . . . .	4,843,927	4,225,374
Capital grants and contributions . . . . .	722,416	746,855
Total program revenues . . . . .	7,221,988	6,579,856
General revenues:		
Taxes . . . . .	11,065,889	10,677,585
Unrestricted investment earnings. . . . .	62,611	109,065
Transfers . . . . .	409,124	396,824
Total general revenues and transfers . . . . .	11,537,624	11,183,474
Total revenues and transfers - governmental activities . . . . .	18,759,612	17,763,330
Special items . . . . .	114,200	25,628
Total revenues, transfers and special items - governmental activities . . . . .	18,873,812	17,788,958
Adjustment for change in accounting principle . . . . .		8,567,163
Total revenues, transfers, special items and adjustments - governmental activities . . . . .	18,873,812	26,356,121
Business-type activities:		
Program revenues:		
Charges for services . . . . .	2,163,531	1,554,163
Operating grants and contributions . . . . .	136,113	234,993
Capital grants and contributions . . . . .	40,251	53,701
Total program revenues . . . . .	2,339,895	1,842,857
General revenues:		
Taxes . . . . .	-	254,483
Unrestricted investment earnings. . . . .	13,950	297,592
Transfers. . . . .	(409,124)	(396,824)
Total general revenues and transfers . . . . .	(395,174)	155,251
Total revenues and transfers - business-type activities . . . . .	1,944,721	1,998,108
Adjustment for change in accounting principle . . . . .		1,173,078
Total revenues, transfers and adjustments - business-type activities . . . . .	1,944,721	3,171,186
Total government-wide revenues, transfers, special items and adjustments . . . . .	\$20,818,533	\$29,527,307

Source: General Accounting Division, State Comptroller's Office

\*Information not available for years prior to June 30, 2002.

**STATE OF MARYLAND**

**Schedule of Property Tax Levies and Collections**

**Last Ten Fiscal Years**

(Expressed in Thousands)

Fiscal Year	Total Tax Levy	Current Tax Collections	Percentage of Levy Collected	Delinquent Tax Collections	Total Tax Collections	Percentage of Total Tax Collections to Tax Levy	Outstanding Delinquent Taxes	Percentage of Delinquent Taxes to Tax Levy
2003 .....	\$283,266	\$281,145	99.25%	\$2,426	\$283,571	100.11%	\$6,799	2.40%
2002 .....	269,084	268,041	99.61	1,824	269,865	100.29	7,104	2.64
2001 .....	257,684	255,475	99.14	1,505	256,980	99.73	7,885	3.06
2000 .....	251,496	246,835	98.15	3,819	250,654	99.67	7,181	2.86
1999 .....	246,145	243,098	98.76	2,704	245,802	99.86	6,339	2.58
1998 .....	241,010	238,358	98.90	2,890	241,248	100.10	5,996	2.49
1997 .....	234,686	232,628	99.12	1,919	234,547	99.94	6,234	2.66
1996 .....	228,683	226,618	99.10	1,063	227,681	99.56	6,095	2.67
1995 .....	223,489	221,723	99.21	1,784	223,507	100.01	5,093	2.28
1994 .....	216,513	214,560	99.10	2,193	216,753	100.11	5,111	2.36

Source: State Comptroller's Office

**STATE OF MARYLAND**

**Schedule of Assessed and Estimated Actual**

**Value of Taxable Property**

**Last Ten Fiscal Years**

(Expressed in Thousands)

Fiscal Year	Real Property (1)		Personal Property [2]		Total (2)		Percentage of Total (3) Assessed to Total Estimated Actual Value
	Assessed Value	Estimated Actual Value	Assessed Value	Estimated Actual Value	Assessed Value	Estimated Actual Value	
2003 .....	\$336,657,741	\$336,657,741			\$336,657,741	\$336,657,741	100.0%
2002 .....	318,778,365	318,778,365			318,778,365	318,778,365	100.0
2001 .....	122,990,644	307,476,610			122,990,644	307,476,610	40.0
2000 .....	116,643,135	291,607,838	\$36,209,355	\$36,209,355	152,852,490	327,817,193	46.6
1999 .....	113,014,279	282,535,698	35,103,315	35,103,315	148,117,594	317,639,013	46.6
1998 .....	109,893,050	274,732,625	34,570,947	34,570,947	144,463,997	309,303,572	46.7
1997 .....	107,205,699	268,014,248	31,885,281	31,885,281	139,090,980	299,899,529	46.4
1996 .....	104,968,536	262,421,340	31,084,278	31,084,278	136,052,814	293,505,618	46.4
1995 .....	103,018,904	257,547,260	29,512,076	29,512,076	132,530,980	287,059,336	46.2
1994 .....	100,517,470	251,293,675	29,194,598	29,194,598	129,712,068	280,488,273	46.2

Source: The Fiftieth through Fifty-ninth Report of the State Department of Assessments and Taxation.

(1) Utility operating real property is taxed at a different rate than other real property.

(2) Effective July 1, 2000, the value of taxable property excludes all personal property to reflect the exemption of all personal property from State property tax.

(3) The Maryland General Assembly passed legislation at the 2000 Session to change the system of real property assessment from 40% to 100% of Market Value. This change was implemented on July 1, 2001.

**STATE OF MARYLAND**  
**Schedule of Property Tax Rates -**  
**(Per \$100 of Assessed Value)**  
**Direct and Overlapping Governments**  
**Last Ten Fiscal Years**

	2003	2002	2001	2000	1999	1998	1997	1996	1995	1994
State of Maryland . . . . .	\$0.21	\$0.21	\$0.21	\$0.21	\$0.21	\$0.21	\$0.21	\$0.21	\$0.21	\$0.21
Subdivisions:										
Allegany . . . . .	2.46	2.46	2.46	2.47	2.47	2.47	2.47	2.48	2.50	2.50
Anne Arundel . . . . .	2.38	2.40	2.40	2.36	2.36	2.38	2.38	2.38	2.35	2.38
Baltimore County . . . . .	2.79	2.79	2.86	2.86	2.86	2.86	2.86	2.86	2.86	2.87
Calvert . . . . .	2.23	2.23	2.23	2.23	2.23	2.23	2.23	2.23	2.23	2.23
Caroline . . . . .	2.38	2.38	2.38	2.38	2.38	2.42	2.48	2.48	2.49	2.49
Carroll . . . . .	2.62	2.62	2.62	2.62	2.62	2.62	2.62	2.35	2.35	2.35
Cecil . . . . .	2.45	2.45	2.45	2.45	2.45	2.45	2.45	2.45	2.45	2.45
Charles . . . . .	2.54	2.54	2.49	2.49	2.44	2.44	2.44	2.44	2.44	2.28
Dorchester . . . . .	2.20	2.20	2.18	2.18	2.20	2.20	2.21	2.24	2.24	2.24
Frederick . . . . .	2.50	2.50	2.50	2.26	2.26	2.26	2.26	2.26	2.26	2.26
Garrett . . . . .	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.24	2.24	2.19
Harford . . . . .	2.73	2.73	2.73	2.73	2.73	2.73	2.73	2.73	2.73	2.73
Howard . . . . .	2.61	2.61	2.61	2.61	2.59	2.59	2.59	2.59	2.59	2.59
Kent . . . . .	2.53	2.53	2.53	2.33	2.33	2.33	2.33	2.33	2.33	2.33
Montgomery . . . . .	1.87	1.85	1.86	1.87	1.92	1.96	1.99	2.00	1.94	1.92
Prince George's . . . . .	2.40	2.41	2.41	2.41	2.41	2.42	2.43	2.43	2.44	2.45
Queen Anne's . . . . .	2.44	2.44	2.44	2.19	2.19	2.25	2.35	2.17	2.17	2.17
St. Mary's . . . . .	2.27	2.27	2.27	2.08	2.08	2.08	2.11	2.13	2.18	2.27
Somerset . . . . .	2.53	2.45	2.45	2.15	2.15	2.15	2.15	2.15	2.15	2.15
Talbot . . . . .	1.38	1.39	1.39	1.39	1.39	1.39	1.39	0.95	0.65	0.65
Washington . . . . .	2.37	2.37	2.37	2.31	2.31	2.31	2.21	2.21	2.21	2.21
Wicomico . . . . .	2.62	2.68	2.71	2.25	2.25	2.25	2.25	2.25	2.15	2.15
Worcester . . . . .	1.83	1.83	1.74	1.74	1.72	1.72	1.68	1.68	1.68	1.68
Baltimore City . . . . .	5.82	5.82	5.82	5.82	5.82	5.85	5.85	5.85	5.85	5.90

Source: The Fiftieth through Fifty-ninth Report of the State Department of Assessments and Taxation.

**STATE OF MARYLAND**  
**Maryland's Largest Private Employers - 1st through 10th (listed alphabetically)**  
**For Calendar Year 2002**

Employer
Giant of Maryland LLC
Helix Health System Inc.
Home Depot USA Inc.
Johns Hopkins Hospital
Johns Hopkins University
May Department Store Co.
Northrop Grumman Coporation
United Parcel Service
Verizon Maryland Inc.
Wal-Mart

Source: Department of Labor, Licensing and Regulation; Office of Labor Market Analysis and Information  
@www.dllr.state.md.us/Maryland Career and Workforce Information.

STATE OF MARYLAND  
Schedule of Employment by Sector  
For Calendar Year 2002

	Average Annual Employment	Total Wages	Average Weekly Wage Per Worker
Government:			
State and local . . . . .	321,901	\$12,580,937,520	\$ 752
Federal . . . . .	128,314	8,071,632,941	1,210
Total government. . . . .	450,215	20,652,570,461	882
Manufacturing . . . . .	156,875	7,614,828,024	933
Natural Resources and Mining. . . . .	6,247	182,697,223	562
Construction . . . . .	165,725	6,825,794,997	792
Trade, Transportation, and Utilities . . . . .	461,501	15,125,219,162	630
Information . . . . .	53,402	3,009,881,407	1,084
Financial Activities. . . . .	151,187	8,045,043,413	1,023
Professional and Business Services . . . . .	357,504	16,575,035,191	892
Education and Health Services . . . . .	318,044	11,445,321,914	692
Leisure and Hospitality . . . . .	215,106	3,554,930,778	318
Unclassified and other Services . . . . .	91,590	2,492,599,750	523
Total of all sectors . . . . .	2,427,396	\$95,523,922,320	\$ 757

*Source:* Maryland Department of Labor, Licensing and Regulation, Office of Labor Market Analysis and Information Publication "Employment and Payroll 2002 Annual Averages" issued August, 2003. This report reflects the new North American Industry Classification System (NAICS) coding revisions.

STATE OF MARYLAND

**Schedule of Ratio of General Long-term Debt  
To Assessed Value and General Long-Term Debt Per Capita  
Last Ten Fiscal Years**

Fiscal Year	(Expressed in Thousands)			Ratio of General Long- Term Debt to Assessed Value	General Long- Term Debt per Capita
	Estimated Population	Assessed Value (1)(2)	General Long- Term Debt (3)(4)		
2003 .....	5,458	\$336,657,741	\$4,896,893	1.45%	\$897
2002 .....	5,375	318,778,365	4,262,158 (5)	1.34	793
2001 .....	5,297	122,990,644	4,403,986	3.58	831
2000 .....	5,172	152,852,490	4,397,360	2.88	850
1999 .....	5,135	148,117,594	4,599,452	3.11	896
1998 .....	5,094	144,463,997	4,495,614	3.11	883
1997 .....	5,072	139,090,980	4,352,687	3.13	858
1996 .....	5,042	136,052,814	4,248,263	3.12	843
1995 .....	5,046	132,530,980	4,145,961	3.13	822
1994 .....	4,965	129,712,068	3,852,680	2.97	776

(1) *Source:* The Fiftieth through Fifty-ninth Report of the State Department of Assessments and Taxation. Amounts shown are the State's assessable base only.

(2) The Maryland General Assembly passed legislation at the 2000 Session to change the system of real property assessment from 40% to 100% of Market Value. This change was implemented on July 1, 2001.

(3) *Source:* State Comptroller's Office.

(4) Includes all long-term general obligation and transportation bonds and excludes capital lease obligations.

(5) As of July 1, 2001, no longer includes Maryland Transportation Authority Bonds.

STATE OF MARYLAND

**Schedule of Ratio of Annual Debt Service for General  
Long-Term Debt to Total General Expenditures  
Last Ten Fiscal Years**

	(Expressed in Thousands)				Ratio of
			Total Debt	Total General	Debt Service
Fiscal Year	Principal	Interest	Service (1)	Expenditures (2)	to General Expenditures
2003 . . . . .	\$421,859	\$203,701	\$625,560	\$20,749,649	3.01%
2002 . . . . .	406,850	202,834	609,684	19,654,854	3.10
2001 . . . . .	397,581	220,466	618,047	16,977,407	3.64
2000 . . . . .	406,047	234,840	640,887	15,485,911	4.14
1999 . . . . .	374,882	228,748	603,630	14,579,431	4.14
1998 . . . . .	364,154	229,148	593,302	13,566,389	4.37
1997 . . . . .	358,850	226,739	585,589	13,385,744	4.37
1996 . . . . .	370,675	231,324	601,999	12,824,033	4.69
1995 . . . . .	282,189	223,842	506,031	12,568,545	4.03
1994 . . . . .	229,725	237,554	467,279	11,070,143	4.22

*Source:* General Accounting Division, State Comptroller's Office.

(1) As of July 1, 2001, the debt service and general expenditures totals do not include debt service or general expenditures of the Maryland Transportation Authority.

(2) Includes general, special revenue, debt service and capital projects funds.



# STATE OF MARYLAND

## Schedule of Taxes Pledged to Consolidated Transportation

### Bonds and Net Revenues as Defined for Purposes of

### Consolidated Transportation Bonds Coverage Tests (1)

#### Last Ten Fiscal Years

(Expressed in Thousands)

	Year ended June 30,									
	2003	2002	2001	2000	1999	1998	1997	1996	1995	1994
Revenues:										
Taxes and fees:										
Taxes pledged to bonds. . . .	\$1,073,953	\$1,046,715	\$1,027,808	\$ 981,548	\$ 934,051	\$857,816	\$ 839,928	\$ 813,072	\$ 771,765	\$ 727,557
Other taxes and fees . . . . .	88,833	238,303	219,426	220,672	214,483	198,101	196,044	187,558	216,995	198,356
Total taxes and fees. . . . .	1,162,786	1,285,018	1,247,234	1,202,220	1,148,534	1,055,917	1,035,972	1,000,630	988,760	925,913
Operating revenues . . . . .	299,844	297,489	303,206	311,909	267,946	241,357	218,874	203,891	212,767	198,618
Investment income. . . . .	2,960	3,724	10,423	10,206	10,142	10,933	9,108	13,646	12,705	10,144
Other . . . . .	79,023	25,950	24,619	19,361	15,486	14,228	9,913	21,670	7,613	11,620
Total revenues. . . . .	1,544,613	1,612,181	1,585,482	1,543,696	1,442,108	1,322,435	1,273,867	1,239,837	1,221,845	1,146,295
Administration, operation and maintenance expenditures . . . .	1,159,176	1,044,908	979,318	913,059	868,439	808,439	769,977	784,816	709,180	689,029
Less: federal funds . . . . .	(76,841)	(50,396)	(29,418)	(24,723)	(20,472)	(11,530)	(19,966)	(21,520)	(17,567)	(21,904)
Total . . . . .	1,082,335	994,512	949,900	888,336	847,967	796,909	750,011	763,296	691,613	667,125
Net revenues. . . . .	\$ 462,278	\$ 617,669	\$ 635,582	\$ 655,360	\$ 594,141	\$525,526	\$ 523,856	\$ 476,541	\$ 530,232	\$ 479,170
Maximum annual principal and interest requirements . . . .	\$ 153,965	\$ 138,183	\$ 127,060	\$ 127,060	\$ 133,267	\$133,267	\$ 142,769	\$ 140,269	\$ 140,269	\$ 136,032
Ratio of net revenues to maximum annual principal and interest requirements . . . . .	3.00	4.47	5.00	5.16	4.46	3.94	3.67	3.40	3.78	3.52
Ratio of taxes pledged to bonds to maximum annual principal and interest requirements . . . . .	6.98	7.57	8.09	7.73	7.01	6.44	5.88	5.80	5.50	5.35

Source: The Secretary's Office of the Department of Transportation.

(1) Under the terms of the bond authorizing resolutions, additional Consolidation Transportation Bonds may be issued, provided, among other conditions, that (i) total receipts, less administration, operation and maintenance expenditures for the preceeding fiscal year equal at least two times maximum annual debt service on all Consolidated Transportation Bonds outstanding and to be issued and that (ii) total proceeds from pledged taxes equal at least two times maximum annual debt service on all Consolidated Transportation Bonds outstanding and to be issued.

STATE OF MARYLAND  
Schedule of Demographic Statistics  
Last Ten Fiscal Years

Fiscal Year	Population (1)	Per Capita Income (2)	School Enrollment (3)	Unemployment Rate (4)
2003 .....	5,458,137	N/A	1,056,944	4.7%
2002 .....	5,375,156	\$36,121	1,049,733	4.6
2001 .....	5,296,586	35,188	1,040,020	3.8
2000 .....	5,171,634	33,872	1,017,574	3.3
1999 .....	5,134,808	32,166	1,009,870	4.0
1998 .....	5,094,000	30,023	998,085	4.8
1997 .....	5,072,000	28,671	985,180	5.0
1996 .....	5,042,438	27,618	977,828	5.1
1995 .....	5,046,050	26,333	964,389	5.0
1994 .....	4,965,000	21,040	949,659	5.6

*Sources:*

(1) US Department of Commerce, Bureau of Census--"Annual Population Estimates by State"

(2) US Department of Commerce, Bureau of Economic Analysis.

(3) State Department of Education.

(4) State Department of Labor, Licensing and Regulation.

N/A Not available at this date.

STATE OF MARYLAND  
Schedule of Property Value  
Last Ten Fiscal Years  
(Expressed in Thousands)

Fiscal Year	Commercial	Residential	Agricultural	Nontaxable (1)
2003 .....	\$77,734,083	\$251,863,300	\$7,060,358	\$47,759,932
2002 .....	74,076,446	237,905,138	6,796,781	45,976,472
2001 .....	71,349,851	228,827,421	7,299,338	45,085,992
2000 .....	66,881,659	218,631,511	6,094,667	44,277,708
1999 .....	64,219,071	212,366,454	5,950,173	43,541,916
1998 .....	62,377,451	205,239,920	7,115,253	42,687,496
1997 .....	61,626,974	200,557,837	5,829,437	41,642,651
1996 .....	59,843,316	197,628,263	5,541,304	41,317,411
1995 .....	62,013,692	190,112,779	5,420,789	40,235,799
1994 .....	64,464,686	181,420,690	5,408,299	40,235,799

(1) *Source:* State Department of Assessments and Taxation.

STATE OF MARYLAND  
**Schedule of Miscellaneous Statistics**  
**June 30, 2003**

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Date of Ratification	1788
Form of Government	Legislative - Executive - Judicial
Miles of State Highways	5,232
Land Area	9,844 square miles
State Police Protection:	
Number of Stations	26
Number of State Police	1,624
Higher Education (Universities, Colleges and Community Colleges):	
Number of Campuses in State	29
Number of Educators	8,061
Number of Students	236,897
Recreation:	
Number of State Parks and Forests	61
Area of State Parks	92,900 acres
Area of State Forests	135,854 acres
Employees	98,092

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*Sources:* State Comptroller's Office, General Accounting Division Central Payroll Bureau, Maryland Manual  
@ [www.mdarchives.state.md.us/msa/mdmanual](http://www.mdarchives.state.md.us/msa/mdmanual), and the Department of Natural Resources.







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